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Exhibit I

AUDITORS' REPORT ON COMPLIANCE, INTERNAL CONTROL  
OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

Speaker, House of Representatives and  
President Pro-Tem of the Senate  
Governor  
General Assembly, State of Vermont  
State House  
Montpelier, Vermont

Compliance

We have jointly audited the compliance of the State of Vermont with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of current year findings and questioned costs (Exhibit III). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

Our compliance audit, described below, did not include the operations of the component units that received federal financial assistance during the year ended June 30, 2000 because the component units engaged other auditors to perform audits in accordance with OMB Circular A-133.

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

In our opinion, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of current year findings and questioned costs (Exhibit III) as items 2000-4 through 2000-15.

#### Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have jointly audited the Schedule of Expenditures of Federal Awards of the State of Vermont for the year ended June 30, 2000. This schedule is the responsibility of the State's management. Our responsibility is to express an opinion on this schedule based on our audit.

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

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

In our opinion, the Schedule of Expenditures of Federal Awards presents fairly the federal expenditures of the State of Vermont for the year ended June 30, 2000 in accordance with the basis of accounting described in note 1(c) to the Schedule of Expenditures of Federal Awards.

This report is intended solely for the information and use of management, the cognizant federal agency, the Office of the Inspector General and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Elizabeth M. Ready  
Former State Auditor

KPMG LLP

February 16, 2001

**STATE OF VERMONT**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2000

<u>CFDA Number</u>	<u>Federal Agency/Program Title</u>	<u>Expenditures</u>
	<b><u>U.S. Department of Agriculture</u></b>	
10.064	Forestry Incentives Program	\$ 1,100
10.156	Federal/State Marketing Improvement Program	24,668
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	575,688
10.551	Food Stamps	32,287,277
10.553	School Breakfast Program	1,925,265
10.555	National School Lunch Program	7,412,361
10.556	Special Milk Program for Children	82,197
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	9,383,590
10.558	Child and Adult Care Food Program	4,233,679
10.559	Summer Food Service Program for Children	330,734
10.560	State Administrative Expenses for Child Nutrition	471,711
10.561	State Administrative Matching Grants for Food Stamp Program	4,891,332
10.564	Nutrition Education and Training Program	40,018
10.568	Emergency Food Assistance Program (Administrative Costs)	73,815
10.570	Nutrition Program for the Elderly (Commodities)	491,735
10.572	WIC Farmers' Market Nutrition Program (FMNP)	63,835
10.664	Cooperative Forestry Assistance	1,548,963
10.999	Federal Egg Inspection Program	1,404
10.999	Dietary Guidelines	11,689
		<hr/> 63,851,061
	<b><u>U.S. Department of Commerce</u></b>	
10.769	Rural Business Enterprise Grant – Revolving Loan Fund	49,040
11.426	Financial Assistance for National Centers for Coastal Ocean Science	38,892
		<hr/> 87,932
	<b><u>U.S. Department of Defense</u></b>	
12.002	Procurement Technical Assistance for Business Firms	208,407
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	13,010
		<hr/> 221,417
	<b><u>U.S. Department of Housing and Urban Development</u></b>	
14.181	Supportive Housing for Persons with Disabilities	10,534
14.228	Community Development Block Grants/State's Program	7,316,416
14.231	Emergency Shelter Grants Program	334,979
14.235	Supportive Housing Program	177,851
14.239	HOME Investment Partnerships Program	2,857,507
14.900	Lead Based Paint Hazard Control in Privately Owned Housing	18,013
14.999	Office of Fair Housing – Capacity Building	59,494
		<hr/> 10,774,794

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF VERMONT**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2000

<u>CFDA Number</u>	<u>Federal Agency/Program Title</u>	<u>Expenditures</u>
<b><u>U.S. Department of the Interior</u></b>		
15.605	Sport Fish Restoration	\$ 2,216,389
15.611	Wildlife Restoration	988,123
15.615	Cooperative Endangered Species Conservation Fund	18,518
15.810	National Cooperative Geologic Mapping Program	40,592
15.904	Historic Preservation Fund Grants-In-Aid	<u>454,351</u>
		<u>3,717,973</u>
<b><u>U.S. Department of Justice</u></b>		
16.523	Juvenile Accountability Incentive Block Grants	719,574
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States	751,519
16.541	Juvenile Justice and Delinquency Prevention – Special Emphasis	567,460
16.550	State Justice Statistics Program for Statistical Analysis Centers	1,345
16.560	National Institute of Justice Research, Evaluation and Development Project Grants	48,676
16.574	Identify, Assess & Accommodate Developmental Disabilities of Criminals	17,500
16.575	Crime Victim Assistance	1,236,550
16.576	Crime Victim Compensation	142,000
16.579	Byrne Formula Grant Program	2,181,477
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	165,246
16.582	Crime Victim Assistance/Discretionary Grants	188,678
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	5,474,381
16.588	Violence Against Women Formula Grants	771,786
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	502,768
16.590	Grants to Encourage Arrest Policies	487,361
16.592	Local Law Enforcement Block Grants Program	873,203
16.593	Residential Substance Abuse Treatment for State Prisoners	172,470
16.598	State Identification Systems Grant Program	219,131
16.607	Bullet Proof Vest Partnership Program	25,015
16.710	Public Safety Partnership and Community Policing Grants	112,843
16.727	Enforcing Underage Drinking Laws Program	378,222
16.999	Marijuana Education	56,745
16.999	Drug Enforcement Administration - DEA	13,559
16.999	Seized Car Program	4,343
16.999	State and Local Training & B Education Assistance	<u>28,803</u>
		<u>15,140,655</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.



**STATE OF VERMONT**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2000

<u>CFDA Number</u>	<u>Federal Agency/Program Title</u>	<u>Expenditures</u>
<b><u>U.S. Department of Labor</u></b>		
17.002	Labor Force Statistics	\$ 456,982
17.005	Compensation and Working Conditions Data	22,003
17.203	Labor Certification for Alien Workers	173,623
17.207	Employment Service	3,332,789
17.225	Unemployment Insurance	48,426,257
17.235	Senior Community Service Employment Program	16,054
17.245	Trade Adjustment Assistance - Workers	26,641
17.246	Employment and Training Assistance - Dislocated Workers	646,867
17.249	Employment Services and Job Training Pilots - Demonstration and Research	2,363,377
17.250	Job Training Partnership Act	1,434,704
17.253	Welfare-to-Work Grants to States and Localities	2,264,026
17.255	Workforce Investment Act	5,357,463
17.503	Occupational Safety and Health - State Program	325,218
17.504	Consultation Agreements	154,224
17.801	Disabled Veterans' Outreach Program (DVOP)	185,097
17.804	Local Veterans' Employment Representative Program	428,174
17.999	National Occupational Information Coordinating Committee (NOICC)	104,564
		<hr style="width: 100%; border: 0.5px solid black;"/>
		65,718,063
<b><u>U.S. Department of Transportation</u></b>		
20.005	Boating Safety Financial Assistance	457,030
20.106	Airport Improvement Program	546,294
20.205	Highway Planning and Construction	119,061,400
20.219	Recreational Trails Program	328,371
20.500	Federal Transit - Capital Investment Grants	3,338,422
20.505	Federal Transit - Metropolitan Planning Grants	123,723
20.507	Federal Transit - Formula Grants	5,154,784
20.509	Formula Grants for Other Than Urbanized Areas	5,495,913
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	1,621,161
20.514	Transit Planning and Research	190,743
20.515	State Planning and Research	62,410
20.600	State and Community Highway Safety	921,460
20.700	Pipeline Safety	46,684
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	18,536
20.999	Graduated Licensing System	17,168
20.999	Fatal Accident Reporting System	14,006
		<hr style="width: 100%; border: 0.5px solid black;"/>
		137,398,105

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF VERMONT**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2000

<u>CFDA Number</u>	<u>Federal Agency/Program Title</u>	<u>Expenditures</u>
	<b><u>U.S. Department of the Treasury</u></b>	
21.999	Bordergap	\$ 6,890
21.999	Commercial Vehicle Enforcement Team	335
21.999	Highgate Outbound	<u>1,710</u>
		<u>8,935</u>
	<b><u>Equal Employment Opportunity Commission</u></b>	
30.002	Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	<u>39,250</u>
	<b><u>National Foundation on the Arts and the Humanities</u></b>	
45.310	State Library Program	<u>596,322</u>
	<b><u>National Science Foundation</u></b>	
47.076	Education and Human Resources	<u>1,588,803</u>
	<b><u>U.S. Department of Veterans Affairs</u></b>	
64.010	Veterans Nursing Home Care	2,073,538
64.124	All - Volunteer Force Educational Assistance	42,920
64.203	State Cemetery Grants	<u>346,191</u>
		<u>2,462,649</u>
	<b><u>U.S. Environmental Protection Agency</u></b>	
66.001	Air Pollution Control Program Support	1,602,599
66.032	State Indoor Radon Grants	83,130
66.454	Water Quality Management Planning	125,106
66.458	Capitalization Grants for State Revolving Funds	13,593,438
66.460	Nonpoint Source Implementation Grants	3,053
66.461	Wetlands Protection - Development Grants	523,627
66.463	National Pollutant Discharge Elimination System Related State Program Grants	141,854
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	75,698
66.468	Capitalization Grants for Drinking Water State Revolving Fund	7,848,577
66.470	Rural Communities Hardship Grant	157,401
66.500	Environmental Protection – Consolidated Research	236,908
66.605	Performance Partnership Grants	7,131,545
66.606	Surveys, Studies, Investigations and Special Purpose Grants	132,702
66.701	Toxic Substance Compliance Monitoring Cooperative Agreements	28,889
66.707	TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	120,655
66.713	State and Tribal Environmental Justice	21,835
66.802	Superfund State Site - Specific Cooperative Agreements	66,143
66.804	State and Tribal Underground Storage Tanks Program	472
66.805	Leaking Underground Storage Tank Trust Fund Program	676,699
66.809	Superfund State Core Program Cooperative Agreements	165,464
66.925	Location Data Improvement Program	10,888
66.951	Environmental Education Grants	<u>1,102</u>



See accompanying notes to Schedule of Expenditures of Federal Awards.

32,747,785

**STATE OF VERMONT**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2000

<u>CFDA Number</u>	<u>Federal Agency/Program Title</u>	<u>Expenditures</u>
	<b><u>U.S. Department of Energy</u></b>	
81.039	National Energy Information Center	\$ 1,210
81.041	State Energy Program	446,062
81.042	Weatherization Assistance for Low-Income Persons	751,720
81.079	Regional Biomass Energy Programs	<u>130,510</u>
		<u>1,329,502</u>
	<b><u>Federal Emergency Management Agency</u></b>	
83.105	Community Assistance Program - State Support Services Element (CAP - SSSE)	40,053
83.503	State and Local Assistance - 50%	285,266
83.505	State Disaster Preparedness Grants	23,414
83.516	Disaster Assistance	4,157,756
83.521	Earthquake Hazards Reduction Grants	31,839
83.531	State and Local Assistance - 100%	92,780
83.534	Emergency Management - State and Local Assistance	95,266
83.535	Mitigation Assistance	85,435
83.536	Flood Mitigation Assistance	2,268
83.547	First Responder Counter-Terrorism Training Assistance	77,067
83.550	National Dam Safety Grant Program – FEMA	11,134
83.551	Project Impact – Building Disaster Resistent Communities	54,080
83.552	Emergency Management Program Grants	624,677
83.999	Comprehensive Environmental Response (CERCLA)	<u>5,000</u>
		<u>5,586,035</u>
	<b><u>U.S. Department of Education</u></b>	
84.002	Adult Education - State Grant Program	812,332
84.010	Title 1 Grants to Local Educational Agencies	18,133,902
84.011	Migrant Education - Basic State Grant Program	785,119
84.013	Title 1 Program for Neglected and Delinquent Children	118,738
84.027	Special Education - Grants to States	8,197,046
84.048	Vocational Education - Basic Grants to States	3,997,567
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	7,751,585
84.128	Rehabilitation Services - Service Projects	74,911
84.154	Public Library Construction and Technology Advancement	89,437
84.162	Immigrant Education	52,463
84.169	Independent Living - State Grants	216,794
84.173	Special Education - Preschool Grants	768,593
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	222,250

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF VERMONT**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2000

<u>CFDA Number</u>	<u>Federal Agency/Program Title</u>	<u>Expenditures</u>
84.181	Special Education - Grants for Infants and Families with Disabilities	\$ 1,909,135
84.185	Byrd Honors Scholarships	84,000
84.186	Safe and Drug-Free Schools and Communities - State Grants	2,081,692
84.187	Supported Employment Services for Individuals with Severe Disabilities	298,578
84.194	Bilingual Education Support Services	98,917
84.196	Education for Homeless Children and Youth	77,377
84.213	Even Start - State Educational Agencies	639,754
84.216	Capital Expenses	17,508
84.224	Assistive Technology	525,840
84.235	Rehabilitation Services Demonstration and Training - Special Demonstration Programs	105,335
84.243	Tech-Prep Education	349,575
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	86,813
84.276	Goals 2000 - State and Local Education Systematic Improvement Grants	1,226,215
84.281	Eisenhower Professional Development State Grants	1,554,321
84.298	Innovative Education Program Strategies	1,731,015
84.314	Even Start - Statewide Family Literacy Program	4,571
84.318	Technology Literacy Challenge Fund Grants	1,922,561
84.323	Special Education - State Program Improvement Grants for Children with Disabilities	233,974
84.332	Comprehensive School Reform Demonstration	209,923
84.336	Teacher Quality Enhancement Grants	209,733
84.338	Reading Excellence	129,021
84.340	Class Size Reduction	<u>5,272,963</u>
		<u>59,989,558</u>
	<b><u>U.S. Department of Health and Human Services</u></b>	
93.006	State and Territorial and Technical Assistance Capacity Development - Minority HIV/AIDS Demonstration Program	264
93.041	Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	23,645
93.042	Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	41,711
93.043	Special Programs for the Aging - Title III, Part F - Disease Prevention and Health Promotion Services	64,958
93.044	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	1,876,458
93.045	Special Programs for the Aging - Title III, Part C - Nutrition Services	2,114,557
93.046	Special Programs for the Aging - Title III, Part D - In-Home Services for Frail Older Individuals	25,902
93.048	Special Programs for the Aging - Title IV - Training, Research and Discretionary Projects and Programs	11,385
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,194,448
93.110	Maternal and Child Health Federal Consolidated Programs	213,920

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF VERMONT**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2000

<u>CFDA Number</u>	<u>Federal Agency/Program Title</u>	<u>Expenditures</u>
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	\$ 75,930
93.119	Mental Health Data Collection	95,826
93.127	Emergency Medical Services for Children	98,986
93.130	Primary Care Services - Resource Coordination and Development Primary Care Offices	137,962
93.136	Injury Prevention and Control Research and State and Community Based Programs	16,351
93.150	Projects for Assistance in Transition from Homelessness (PATH)	297,719
93.165	Grants for State Loan Repayment	20,000
93.194	Community Prevention Coalitions (Partnership) Demonstration Grant	2,861,785
93.197	Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	230,998
93.217	Family Planning - Services	786,186
93.230	Consolidated Knowledge Development and Application Program	784,052
93.239	Policy Research and Evaluation Grants	41,230
93.241	State Rural Hospital Flexibility Program	4,517
93.268	Immunization Grants	718,038
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	1,526,752
93.556	Promoting Safe and Stable Families	388,907
93.558	Temporary Assistance for Needy Families	40,663,310
93.563	Child Support Enforcement	3,589,556
93.566	Refugee and Entrant Assistance - State Administered Programs	413,937
93.568	Low-Income Home Energy Assistance	10,025,781
93.569	Community Services Block Grant	2,845,323
93.575	Child Care and Development Block Grant	9,236,049
93.576	Refugee and Entrant Assistance - Discretionary Grants	27,715
93.583	Refugee and Entrant Assistance – Wilson/Fesh Programs	63,537
93.586	State Court Improvement Program	85,105
93.590	Community-Based Family Resource and Support Grants	269,646
93.595	Welfare Reform Research, Evaluations and National Studies	244,049
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	6,125,407
93.597	Grants to States for Access and Vistation Programs	84,891
93.600	Head Start	126,909
93.603	Adoption Incentive Payments	100,652
93.630	Developmental Disabilities Basic Support and Advocacy Grants	443,732
93.643	Children’s Justice Grants to States	50,333
93.645	Child Welfare Services - State Grants	688,851
93.647	Social Services Research and Demonstration	23,616
93.652	Adoption Opportunities	148,876
93.658	Foster Care - Title IV - E	17,726,000

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF VERMONT**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2000

<u>CFDA Number</u>	<u>Federal Agency/Program Title</u>	<u>Expenditures</u>
93.667	Social Services Block Grant	\$ 8,702,294
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	400,000
93.674	Independent Living	296,346
93.767	State Children's Insurance Program	1,295,405
93.770	Child A & N	101,742
93.775	State Medicaid Fraud Control Units	426,743
93.777	State Survey and Certification of Health Care Providers and Suppliers	784,736
93.778	Medical Assistance Program	352,242,599
93.779	Health Care Financing Research, Demonstrations and Evaluations	340,105
93.912	Rural Health Outreach and Rural Network Development Program	300,788
93.913	Grants to States for Operation of Offices of Rural Health	170,544
93.917	HIV Care Formula Grants	501,455
93.919	Cooperative Agreements for State - Based Comprehensive Breast and Cervical Cancer Early Detection Programs	872,866
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	274,213
93.940	HIV Prevention Activities – Health Department Based	1,426,319
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	50,675
93.945	Reducing the Burden of Arthritis and Other Rheumatic Conditions	20,589
93.958	Block Grants for Community Mental Health Services	548,777
93.959	Block Grants for Prevention and Treatment of Substance Abuse	3,774,105
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grants	146,506
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	219,532
93.991	Preventive Health and Health Services Block Grant	383,246
93.994	Maternal and Child Health Services Block Grant to the States	1,485,342
93.999	Needs Assessment Prevention Contract	430,792
93.999	ADAP Alcohol and Drug Abuse	305,533
93.999	ADAP Data Collection	<u>31,312</u>
		<u>482,168,326</u>
	<b><u>Corporation for National and Community Service</u></b>	
94.003	State Commissions	59,515
94.004	Learn and Serve America - School and Community Based Programs	517,911
94.006	AmeriCorps	817,316
94.007	Planning and Program Development Grants	121,471
94.009	Training and Technical Assistance	<u>72,044</u>
		<u>1,588,257</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF VERMONT**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2000

<u>CFDA Number</u>	<u>Federal Agency/Program Title</u>	<u>Expenditures</u>
	<b><u>Social Security Administration</u></b>	
96.001	Social Security - Disability Insurance	\$ 2,612,393
96.007	Social Security – Research and Demonstration	<u>549,121</u>
		<u>3,161,514</u>
	Total Monetary Federal Financial Assistance Expended	<u>888,176,936</u>
	<b><u>Non-Monetary Programs</u></b>	
10.569	Emergency Food Assistance Program (Food Commodities)	394,136
10.572	WIC Farmers’ Market Nutrition Program	51,482
39.003	Donation of Federal Surplus Personal Property	489,986
93.268	Immunization Grants	<u>1,656,878</u>
	Total Non-Monetary Federal Financial Assistance Expended	<u>2,592,482</u>
	Total Federal Financial Assistance Expended	\$ <u><u>890,769,418</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.



Exhibit II

(Continued)

**STATE OF VERMONT**  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2000

**(1) Summary of Significant Accounting Policies**

The accounting and reporting policies of the State of Vermont, are set forth below:

**(a) *Single Audit Reporting Entity***

For purposes of complying with The Single Audit Act Amendments of 1996, the State of Vermont (the "State") includes all entities that are considered part of the primary government, as described in the general purpose financial statements as of and for the year ended June 30, 2000. The Schedule of Expenditures of Federal Awards (the "Schedule") does not include component units identified in the notes to the general purpose financial statements.

**(b) *Basis of Presentation***

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

1. Federal Financial Assistance - Pursuant to the Single Audit Act Amendments of 1996 and OMB Circular A-133, federal financial assistance is defined as assistance that non-federal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, food commodities, direct appropriations or other assistance and, therefore, is reported on the Schedule of Expenditures of Federal Awards. Federal financial assistance does not include direct federal cash payments to individuals.
2. Type A and Type B Programs - OMB Circular A-133 established the levels of expenditures to be used in defining Type A and Type B federal financial assistance programs. Type A programs for the State of Vermont are those programs or clusters of programs which equal or exceed \$3 million in expenditures, distributions, or issuances for the fiscal year ended June 30, 2000.

**(c) *Basis of Accounting***

The accompanying Schedule of Expenditures of Federal Awards was prepared on the cash basis of accounting as reported on the federal financial reports submitted to the grantor agencies. These reports are periodically reconciled to the State's central accounting system, which is the primary source for information used to prepare the State's general purpose financial statements.

**(d) *Matching Costs***

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

Exhibit II

(Continued)

**STATE OF VERMONT**  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2000

**(2) Categorization of Expenditures**

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

**(3) Relationship to Federal Financial Reports**

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

**(4) Unemployment Insurance (CFDA #17.225)**

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

State	\$ 41,234,911
Federal	<u>7,191,346</u>
	<u>\$ 48,426,257</u>

**(5) Airport Improvement Program (CFDA #20.106)**

The State of Vermont receives Federal Aviation Administration (FAA) funds from the U.S. Department of Transportation. The State excludes from its Schedule of Federal Awards FAA funds received on behalf of the City of Burlington (Burlington) Vermont, because the State does not perform any program responsibilities or oversight of these funds. Rather its

sole function is to act as a conduit between the federal awarding agency and Burlington, who owns and operates the airport.

Exhibit II

(Continued)

**STATE OF VERMONT**  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2000

**(6) Nonmonetary Federal Financial Assistance**

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

Emergency Food Assistance Program (Food Commodities)

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

WIC Farmers' Market Nutrition Program

The Farmers' Market Nutrition Program was established to provide fresh, nutritious, unprepared foods, such as fruits and vegetables, from farmers markets to women, infants and children who are nutritionally at risk. Participants of the Women, Infants and Children (WIC) program are provided with coupon/vouchers that enable them to purchase these commodities. Total federal expenditures included in the Schedule for CFDA #10.572, WIC Farmers' Market Nutrition Program, represent the total dollar value of the coupons provided by the federal government that remain in inventory as of year end.

Donation of Federal Surplus Personal Property

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

Immunization Grants

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

Exhibit III

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(1) Summary of Auditors' Results**

- (a) The independent auditors' report on the general purpose financial statements expressed a qualified opinion.
- (b) Reportable conditions in internal control over financial reporting were identified - of which one was considered to be material weaknesses.
- (c) No instances of noncompliance considered material to the general purpose financial statements were disclosed by the audit.
- (d) No reportable conditions in internal control over compliance with requirements applicable to major federal awards programs were identified.
- (e) The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
- (f) The audit disclosed findings required to be reported by OMB Circular A-133.
- (g) The State's major programs were:

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CFDA #	Name
<u>Food Stamp Cluster</u>	
10.551	Food Stamps
10.561	State Administrative Matching Grants
Stamp Program	for Food
<u>Child Care Development Cluster</u>	
93.575	Child Care
and Development Block Grant	
93.596	Child Care
Mandatory and Matching Funds	
Care and Development Fund	of the Child
<u>Medicaid Cluster</u>	

93.775  
Medicaid Fraud Control Units  
93.777  
and Certification of Health  
Providers and Suppliers  
93.778  
Assistance Program

State

State Survey

Care

Medical



STATE OF VERMONT  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

Other Programs

16.586	Violent Offender Incarceration and Truth
	in
Sentencing Incentive Grants 17.255	Workforce
Investment Act 66.458	Capitalization
Grants for State Revolving Funds 84.340	Class Size
Reduction 93.558	Temporary
Assistance for Needy Families 93.563	Child Support
Enforcement 93.568	Low-Income
Home Energy Assistance 93.959	Block Grants for Prevention and Treatment
Abuse	of Substance

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



**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

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

**Finding 2000 - 1**

As of June 30, 2000, the Vermont Departments of Education and Taxes do not have adequate systems of internal controls in place to verify, track, and record those statewide property taxes generated by towns and municipalities and transferred to local education agencies which do not pass through the State's financial system. In fiscal year 2000, these funds exceeded \$348 million.

**Finding 2000 - 2**

The State's ability to pay for goods or services received during one fiscal year with funds budgeted for the subsequent fiscal year does not allow proper matching of budgets and spending against those budgets. In addition, management of budgets could be adversely affected in the year full encumbrance accounting is adopted. For fiscal year 2000, \$70 million of bills for goods and services received during fiscal year 2000 were paid for from the fiscal year 2001 budget.

**Finding 2000 - 3**

The manual compilation of the State's Budget and Actual Statements of Revenues, Expenditures and Changes in Fund Balance for the General and Special Revenue Funds adversely affected the State's ability to routinely summarize and report financial data.



(Continued)

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 - 4**

**State of Vermont**

**Subrecipient Monitoring (All Federal Programs)**

**Requirement**

A pass-through entity shall perform the following for the Federal awards it makes: (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency; (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity; (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved; (4) Ensure that subrecipients expending \$300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year; (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action; (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records; and (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part. (OMB Circular A-133 .400(d))

**Finding**

In the past, subrecipient monitoring by the State was primarily accomplished by requiring subrecipients to have an audit in accordance with federal regulations. Changes in Circular

A-133 have raised the required audit threshold from \$25,000 to \$300,000 thereby eliminating the need for many governmental agencies and non-profit organizations to be audited. Although these entities may be exempt from having an audit under Circular A-133, the State is still responsible for monitoring.

During our testwork we noted that the State has no formal procedures in place for identifying, tracking or monitoring subrecipients. Specific items noted include:

- a) The State does not always obtain audit reports in accordance with OMB Circular A-133. *Audits of States, Local Governments and Non-Profit Organizations*, from subrecipients, if applicable, nor does the State inquire as to whether or not an audit has been performed.

(Continued)

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 – 4, Continued**

- b) Review of subrecipients A-133 audit reports for types of opinions, compliance issues, internal control issues and agreement of financial data is not always performed. Also, it is unclear how the State follows up on issues identified within the audit reports.
- c) Subrecipients expending less than \$300,000 in assistance are frequently not monitored since they fall below the required audit threshold.
- d) Many subrecipients are paid based on scheduled disbursement dates (i.e. monthly, quarterly). These scheduled disbursement dates do not evaluate the recipients' need for additional cash or the amount of cash on hand. As a result, many subrecipients have excess cash on hand.
- e) It is often unclear to determine if, and how, the State reviewed financial and progress reports submitted by subrecipients.
- f) The federal government requires that contracts and grants not be awarded to parties that are suspended or debarred from contracting with the federal government. In several circumstances the State did not verify whether any of the subrecipients were suspended or debarred.

**Questioned Costs**

Not determinable.

**Recommendation**

We recommend that the State implement the necessary policies and procedures to help ensure that subrecipients are monitored in accordance with federal regulations.





(Continued)

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 - 5**

**Agency of Human Services**

**Food Stamp Cluster:**

**Food Stamps (CFDA #10.551)**

**State Administrative Matching Grants for Food Stamp Program (CFDA #10.561)**

**Requirement**

Households generally cannot exceed a gross income eligibility standard set at 130 percent of the Federal poverty standard (7 CFR section 273.9(a)(1)). Households also cannot exceed a net income standard which is set at 100 percent of the Federal poverty standard (7 CFR section 273.9(a)(2)). The net income standard allows specified deductions from gross income, e.g., a standard deduction and deductions for medical expenses (elderly and disabled only), excess shelter costs, and work expenses. Non-financial eligibility criteria, only some of which affect benefit amounts, include: age, school status, citizenship, residency, household composition, work requirements, and disability status. Some non-citizens are ineligible to participate in the program (7 USC 2015(f)). Able-bodied adults without dependents are subject to a time limit for receiving benefits if certain requirements are not met (7 USC 2015(o)).

**Finding**

Once an applicant is determined eligible for Food Stamps, their benefit amount is calculated based on a variety of factors including family size, income, resources, expenses and shelter costs. During our testwork over the eligibility process and benefit recalculation, we were unable to recalculate the benefit payment for 2 of the 29 participants selected.

**Questioned Costs**

\$276 overpayment.

The overpayments were a result of the participants receiving a shelter expense allowance that was greater than allowed.

**Recommendation**

We recommend that the Agency implement the necessary policies and procedures to help ensure participant benefits are accurately calculated in accordance with federal regulations.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 - 6**

**Agency of Transportation**

**Federal Transit Cluster:**

**Federal Transit Capital Improvement Grants (CFDA #20.500)**

**Federal Transit Capital and Operating Assistance Formula Grant (CFDA #20.507)**

**Requirement**

SF-269, Financial Status Report – Provide reasonable assurance that reports of federal awards submitted to the Federal Awarding Agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

**Finding**

During our testwork over the reporting requirements, we noted that the Agency submits the quarterly financial status reports electronically through the Federal Transit Administration's (FTA) TEAM software. The quarterly financial status report for contract agreements have not been filed with the FTA for approximately two years.

A similar finding was issued in the prior year.

**Questioned Costs**

Not determinable.

**Recommendation**

We recommend the Agency review its policies and procedures over federal reporting requirements and implement the necessary steps to help ensure reports are brought up to date and completed in a timely manner.



**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 - 7**

**Agency of Human Services**

**Low-Income Home Energy Assistance (CFDA #93.568)**

**Requirement**

*Earmarking:*

Leveraging incentive award funds may not be used for planning and administrative costs. However, either in the award year or the following fiscal year, they may be added to the base on which the maximum amount allowed for planning and administration is calculated (45 CFR section 96.87(j)).

**Finding**

During testwork we noted that the Agency received a leveraging award for federal fiscal year 1999 in the amount of \$420,370. Of this amount, the Agency inadvertently used 10% for planning and administrative costs.

**Questioned Costs**

\$42,037

Questioned costs represent the amount of the leveraging award that was used for planning and administration.

**Recommendation**

We recommend the Agency implement the necessary policies and procedures to help ensure that Leveraging awards are only used for allowable activities.



**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 – 8**

**Agency of Human Services**

**Child Care Development Cluster:**

**Child Care and Development Block Grant (CFDA #93.575)**

**Child Care Mandatory and Matching Funds of the Child Care and  
Development Fund (CFDA #93.596)**

**Requirement**

1. Funds may be used for child care services in the form of certificates, grants or contracts (42 USC 9858c(c)(2)(A)).
2. Funds may be used for activities that improve the quality or availability of child care services, consumer education and parental choice (42 USC 9858e).
3. Funds may be used for any other activity that the State deems appropriate to promoting parental choice, providing comprehensive consumer education information to help parents and the public make informed choices about child care, providing child care to parents trying to achieve independence from public assistance, and implementing the health, safety, licensing and registration standards established in State regulations (42 USC 9858c(c)(3)(B)).
4. No funds may be expended through any grant or contract for child care services for any sectarian purpose or activity, including sectarian worship or instruction (42 USC 9858k(a)).
5. With regard to services to students enrolled in grades 1 through 12, no funds may be used for services provided during the regular school day, for any services for which the students receive academic credit toward graduation, or for any instructional services which supplant or duplicate the academic program of any public or private school (42 USC 9858k(b)).
6. Except for Tribes, no funds can be used for the purchase or improvement of land, or for the purchase, construction, or permanent improvement (other than minor remodeling) of any building or facility (42 USC 9858d(b)).

Tribes may use funds for the construction and major renovation of child care facilities with ACF approval (42 USC 9858m(c)(6); 45 CFR section 98.84).

7. Except for sectarian organizations, funds may be used for the minor remodeling (i.e.,

renovation and repair) of child care facilities. For sectarian organizations, funds may be used for the renovation or repair of facilities only to the extent that it is necessary to bring the facility into compliance with the health and safety standards required by 42 USC 9858c(c)(2)(F) (42 USC 9858d(b)).



**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 –8, Continued**

**Finding**

During testwork we noted that the Agency does not properly monitor how smaller grants to providers are being spent. For example, Starting Point Grants are given to implement training programs and to link providers for educational purposes. The grantee must come up with a plan and distribute funds to various sources. Once the funds are distributed, recipients are required to report back how the funds were spent, however, expenses are often based on estimates and are not substantiated with receipts or other supporting evidence, therefore making it difficult to determine if all the funds were spent on allowable activities.

Of the 15 grants selected for testwork, 2 were found to have expenditures that were unsubstantiated.

**Questioned Costs**

\$10,000.

Questioned costs represent the total of the two grants.

**Recommendation**

We recommend that the Agency implement the necessary policies and procedures to adequately monitor smaller grants to providers to help ensure that all expenditures are for allowable activities.



**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 - 9**

**Agency of Human Services**

**Child Care Development Cluster:**

**Child Care and Development Block Grant (CFDA #93.575)**

**Child Care Mandatory and Matching Funds of the Child Care and  
Development Fund (CFDA #93.596)**

**Requirement**

*Financial Reporting:*

*Child Care and Development Fund Financial Report (ACF-696) (OMB No 0970-0163) is due quarterly from States and territories. The Child Care and Development Fund Financial Report for Tribes (ACF-696T, OMB No. 0970-0195) is required from tribes. These reports are in lieu of the SF-269, Financial Status Report. Each fiscal year's expenditure report must be separate, therefore, multiple reports may be required if awards from more than one fiscal year are expended in a given quarter. Any funds transferred from TANF are treated as Discretionary Funds for reporting on the ACF-696 (42 USC 604(d); 45 CFR section 98.54(a)).*

*Earmarking:*

*Quality Earmark - States and territories must spend on quality and availability activities, as provided for in the State/territorial plan, not less than 4 percent of CCDF funds expended (i.e., the total of CFDA 93.575 and 93.596 funds) and any State expenditures for which Matching Funds (CFDA 93.596) are claimed (45 CFR section 98.51).*

**Finding**

The Child Care Services Division is required to report to the Federal government expenditures for quality activities. They are also required to meet quality earmarks established by the Federal government. A portion of the expenditures that are included in the total of the quality activities are obtained from the Community Care Agency's grant expenditures. During testwork we noted that percentages are used to determine what amounts of the Community Care Agency's grant expenditures are considered eligibility determination, resource and referral and training. The percentages were established in 1997 when the grants were first given out and the supporting detail could not be obtained. We also noted that each Community Care Agency is required to submit the breakdown between these categories on a quarterly basis and therefore the Agency has actual amounts spent on

each of the categories.

III-11

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 –9, Continued**

**Questioned Costs**

Not determinable.

**Recommendation**

We recommend that the Agency implement the necessary policies and procedures to properly record funds expended on eligibility determination, resource and referral training.



**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 - 10**

**Agency of Human Services**

**Social Services Block Grant (CFDA #93.667)**

**Requirement**

The State shall use all of the amount transferred in from TANF (CFDA 93.558) for only programs and services to children or their families whose income is less than 200 percent of the official poverty guidelines as revised annually by HHS (42 USC 604(d)(3)(A) and 9902(2)).

**Finding**

During State Fiscal Year 2000, the Agency expended \$8,702,294 of federal funds under the Social Services Block Grant (SSBG) program. Of this amount \$4,735,318 was transferred into SSBG from the TANF program. During testwork, we noted that the funds transferred from the TANF program are not tracked and therefore we were unable to test whether those funds were only used for programs and services to children whose income was less than 200% of the official poverty guidelines.

**Questioned Costs**

Not determinable.

**Recommendation**

We recommend the Agency implement the necessary policies and procedures to help ensure that TANF funds transferred into SSBG are spent in accordance with federal guidelines.





**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 - 11**

**Agency of Human Services**

**Medical Assistance Program (CFDA #93.778)**

**Requirement**

The State Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers. The State Medicaid agency must provide for the filing of uniform cost reports for each participating provider. These cost reports are used to establish payment rates. The State Medicaid agency must provide for the periodic audits of financial and statistical records of participating providers. The specific audit requirements will be established by the State Plan (42 CFR section 447.253).

**Finding**

Annually, hospitals and long term care facilities submit cost reports to the Division of Rate Setting. The cost report categorizes the amounts on the providers audited financial statements and are used to determine the provider's per diem reimbursement rate. The Division of Rate Setting performs a uniform desk review on each cost report submitted. The uniform desk review is an analysis of the provider's cost report to determine the adequacy and completeness of the report, accuracy and reasonableness of the data recorded thereon, allowable costs and a summary of the results of the review for the purpose of either settling the cost report without an on-site audit or determining the extent to which an on-site audit verification is required.

According to the Division of Rate Setting Rules and Regulations included in the State Plan, "Uniform desk reviews shall be completed within an average of 180 days after the receipt of an acceptable cost report filing, except in unusual situations, including but not limited to, delays in obtaining necessary information from a provider."

During our testwork over long-term care facility audits we noted that the reviews were not being performed in a timely manner. Specifically, of the 10 long-term care facility audits selected for testwork, 5 were being performed on the 1997 cost report data and 5 long-term facility audits tested were performed on the 1998 cost report.

**Questioned Costs**

Not determinable.

**Recommendation**

We recommend the Division implement the necessary policies and procedures to help ensure the long-term care facilities audits are completed in a timely manner.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 - 12**

**Agency of Human Services**

**Medical Assistance Program (CFDA #93.778)**

**Requirement**

Each State is required to operate a MEQC system in accordance with requirements specified by HCFA. This HCFA approved system redetermines eligibility for individual sampled cases and provides national and State measures of the accuracy of eligibility and benefit amount determinations (commonly referred to as “payment accuracy”), including both underpayments and overpayments, and of the correctness of decisions to deny benefits. The MEQC system reviews the determinations of beneficiary eligibility made by a State agency, or its designee, and uses statistical sampling methods to select claims for review and project the number and dollar impact of payments to ineligible beneficiaries (42 CFR sections 431.800 through 431.865).

**Finding**

During our testwork over the Agency’s Medicaid Eligibility Quality Control (MEQC) system, we noted the following:

- 1. Certification of Medicaid Eligibility Quality Control Payment Error forms are not submitted in a timely manner.*

Per CFR 431.816, “the Agency must submit summary reports of the findings for all active cases in the 6-month sample by July 31<sup>st</sup> of each year for the previous April – September sampling period and by January 31<sup>st</sup> for the October – March sampling period.”

During our testwork, we noted that the Certification of Medicaid Eligibility Quality Control Payment Error form for the period of October 1998 – March 1999 should have been filed with HCFA by January 31, 2000, however the form had not been filed as of May 2000.

In addition, we note that HCFA identified the same problem during their Management Review.



**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 – 12, Continued**

*2. Corrective Action Plans are not submitted in a timely manner.*

The submission of the Certification of Medicaid Eligibility Quality Control Payment Error form notifies HCFA of the error rate for the six-month period. If the error percentage is over 3%, the Agency must file a corrective action plan. Per CFR 431.820,

“The Agency must take action to correct any active or negative case action errors found in the sample cases, take administrative action to prevent or reduce the incidence of those errors, and by September 15 of each year, submit to HCFA a report on its error rate analysis and a corrective action plan based on that analysis. The agency must submit revisions to the plan within 60 days of identification of additional error-prone areas, other significant changes in the error rate (that is, changes that the State experiences that increase or decrease its error rate and necessitate immediate corrective action or discontinuance of corrective actions that effectively control the cause of the error rate change), or changes in planned corrective action.”

During our testwork we noted the filing of the April 1998 – September 1998 Certification of Medicaid Eligibility Quality Control Payment Error form prompted a calculation of the Federal targeted positive error rate for federal fiscal year 1998. It was calculated as being over the 3.0% and a Corrective Action Plan is required to be filed. The Corrective Action Plan has not been filed to address the targeted positive error rate being over 3.0%.

**Questioned Costs**

Not determinable.

**Recommendation**

We recommend that the Agency implement the necessary policies and procedures to help ensure the required reports are filed in a timely manner with the federal agency and that the Corrective Action Plans are filed when the targeted positive error rate is over the threshold.



**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 - 13**

**Agency of Human Services**

**Medical Assistance Program (CFDA #93.778)**

**Requirement**

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).

**Finding**

Based on our inquires related to the ADP system and security reviews, we were unable to find sufficient evidence to determine that the State Medicaid agency had performed the required ADP risk analyses and system security reviews.

We found no evidence to support that any such reviews were performed during the last 3 years.

**Questioned Costs**

Not determinable.

**Recommendation**

We recommend that the Agency implement the necessary policies and procedures to help ensure compliance with the required ADP risk analyses and system security reviews. This would include reviews following Statement on Auditing Standards No. 70 (SAS 70) *Reports on the Processing of Transactions by Service Organizations*, that may be performed by outside processors.





**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 - 14**

**Agency of Human Services**

**Medical Assistance Program (CFDA #93.778)**

**Requirement**

Each State is required to operate a MEQC system in accordance with requirements specified by HCFA. This HCFA approved system redetermines eligibility for individual sampled cases and provides national and State measures of the accuracy of eligibility and benefit amount determinations (commonly referred to as "payment accuracy"), including both underpayments and overpayments, and of the correctness of decisions to deny benefits. The MEQC system reviews the determinations of beneficiary eligibility made by a State agency, or its designee, and uses statistical sampling methods to select claims for review and project the number and dollar impact of payments to ineligible beneficiaries (42 CFR sections 431.800 through 431.865).

**Finding**

The Health Care Financing Administration (HCFA) performed a Management Review on July 13-14, 2000 and July 27-28, 2000 over the Agency's MEQC system. The review is designed to ensure the effectiveness and the efficiency of the State's Medicaid Eligibility Quality Control system by focusing on the Quality Control operational procedures, reporting requirements, and the corrective action process. During their review the following issues were noted:

1. The Quality Control unit was not conducting face-to-face interviews as required.
2. The submission of active and negative case review results have been tardy.
3. The Health Care Financing Administration (HCFA) reviewed some of the cases during the April 1998 – September 1998 review period and found payment errors, which included incorrect calculation of initial case liability understated errors, failure to distinguish between "liability understated" and "liability overstated" errors in the final payment determinations, and transcription errors.
4. The sampling plan has been found inaccurate in some areas. The system has not been tailored to meet specific needs and program requirements. Based on the review, the negative sampling plan needs to be corrected by the length of the standard sampling period and the minimum sample size.
5. The computerized Medicaid Eligibility Quality Control universe files have problems

with certain identifiers. Based on the review of the sample frame, some cases categories are being erroneously included in the universe from which the sample is drawn. These cases, which are not supposed to be subject to sampling, must be dropped as part of the review process.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 – 14, Continued**

**Questioned Costs**

Not determinable.

**Recommendation**

We recommend that the Agency review HCFA's Management Review summary and implement the necessary policies and procedures to help provide that there are adequate internal controls in place to ensure compliance with the above stated requirements.



**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 - 15**

**Agency of Human Services**

**Medical Assistance Program (CFDA #93.778)**

**Requirement**

The State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. In addition, the State must have: (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and, (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials (42 CFR parts 455, 456, and 1002).

Suspected fraud should be referred to the State Medicaid Fraud Control Units (42 CFR part 1007).

The State Medicaid agency must establish and use written criteria for evaluating the appropriateness and quality of Medicaid services. The agency must have procedures for the ongoing post-payment review, on a sample basis, of the need for and the quality and timeliness of Medicaid services. The State Medicaid agency may conduct this review directly or may contract with a PRO.

**Finding**

The Health Care Financing Administration (HCFA) performed a Fraud and Abuse Initiative Review in May 2000. The primary goal of the review was to assist States in their efforts, identify proactive strategies, and share information with other program integrity stakeholders. The purpose of the review was to learn how States identify, use, coordinate and communicate fraud and abuse information and to determine if States are in regulatory compliance with Federal laws and regulations dealing with fraud and abuse (42 CFR Parts 455 and 447.10).

During the review, HCFA noted that the Agency was not in compliance with regulation 42 CFR 456.23 dealing with post-payment claim review, which impacts their ability to detect potential cases of fraudulent and abusive billing. Specifically, "the Agency must have a post-payment review process that (a) allows State personnel to develop and review recipients utilization profiles, provider service profiles, and exception criteria and (b) identifies exceptions so that the Agency can correct mis-utilization practices of recipients and providers."



**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2000

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Finding 2000 – 15, Continued**

**Questioned Costs**

Not determinable.

**Recommendation**

During the review, HCFA recommended that the State should develop a post-payment review system to identify fraud and abuse in the Medicaid program. The Office of Vermont Health Access (OVHA) should contact other States with an effective post-payment review system process before moving forward with the redesign and implementation of a post payment review process. The experience of other States could benefit Vermont as they develop a more effective post-payment review system process.