



**STATE OF VERMONT**

Auditors' Report as Required by OMB Circular A-133  
and Related Information

Year Ended June 30, 2005

**STATE OF VERMONT**

Auditors' Report as Required by OMB Circular A-133  
and Related Information

Year ended June 30, 2005

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RANDOLPH D. BROCK  
STATE AUDITOR  
STATE OF VERMONT  
OFFICE OF THE STATE AUDITOR



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Exhibit I

**AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL  
OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

Speaker of the House of the Representatives Gaye Symington  
President Pro-Tempore of the Senate Peter F. Welch  
Governor James H. Douglas  
General Assembly, State of Vermont  
State House  
Montpelier, Vermont

Compliance

We have jointly audited the compliance of the State of Vermont (the State) 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, 2005. 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, 2005 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.

Speaker of the House of the Representatives Gaye Symington  
President Pro-Tempore of the Senate Peter F. Welch  
Governor James H. Douglas  
General Assembly, State of Vermont

As described in findings 2005-4; 2005-5; 2005-7; 2005-10; 2005-12; 2005-13; 2005-15; 2005-16; 2005-18; 2005-19; 2005-22; 2005-24; 2005-25; 2005-26; and 2005-27 in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding subrecipient monitoring (CFDA #10.561; #16.007; #20.205; #93.268; #93.283; #93.558; #93.959; #97.004; and #97.067), special test provisions (CFDA #93.268; and #93.778), Suspension and Debarment (CFDA #12.401; #16.007; #93.268; #93.283; #93.959; #97.004; and #97.067), and allowable costs (CFDA #20.205; and #20.509) that are applicable to the State Administrative Matching Grants for Food Stamp Program (CFDA #10.561), National Guard Military and Maintenance Projects (CFDA #12.401), Formula Grants for Other Than Urbanized Areas (CFDA #20.509), Highway Planning and Construction (CFDA #20.205), Immunization Grants (CFDA #93.268), Centers for Disease Control and Prevention – Investigations and Technical Assistance (CFDA #93.283), Temporary Assistance for Needy Families (CFDA #93.558), Medical Assistance Program (CFDA #93.778), Block Grants for the Prevention and Treatment of Substance Abuse (CFDA #93.959), and the Homeland Security Cluster (CFDA #16.007; #97.004; and #97.067) programs. Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2005. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which 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 2005-2; 2005-3; 2005-6; 2005-8; 2005-9; 2005-11; 2005-14; 2005-17; 2005-20; 2005-21; and 2005-23.

#### 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 the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-3; 2005-4; 2005-5; 2005-6; 2005-7; 2005-8; 2005-10; 2005-11; 2005-12; 2005-13; 2005-14; 2005-15; 2005-16; 2005-17; 2005-18; 2005-19; 2005-20; 2005-22; 2005-23; 2005-24; 2005-25; 2005-26; and 2005-27.

Speaker of the House of the Representatives Gaye Symington  
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A material weakness is a reportable 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 the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2005-4; 2005-5; 2005-7; 2005-10; 2005-12; 2005-13; 2005-15; 2005-16; 2005-18; 2005-19; 2005-22; 2005-24; 2005-25; 2005-26; and 2005-27 to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have jointly audited the Schedule of Expenditures of Federal Awards (Schedule) of the State of Vermont for the year ended June 30, 2005. 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 referred to above presents fairly, in all material respects, the federal expenditures of the State of Vermont for the year ended June 30, 2005 in accordance with the basis of accounting described in note 1(c) to the Schedule of Expenditures of Federal Awards.

Speaker of the House of the Representatives Gaye Symington  
President Pro-Tempore of the Senate Peter F. Welch  
Governor James H. Douglas  
General Assembly, State of Vermont

This report is intended solely for the information and use of the Speaker of the House of the Representatives, the President Pro-Tempore of the Senate, the Governor, 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. However, this report is a matter of public record, and its distribution is not limited.



Randolph D. Brock  
State Auditor



KPMG LLP

December 29, 2005

**STATE OF VERMONT**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

CFDA number	Federal agency/program title	Expenditures
	US Department of Agriculture:	
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 384,800
10.156	Federal State Marketing Improvement Program	27,398
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	595,020
10.551	Food Stamps (Cash)	6,960,103
10.551	Food Stamps (EBT)	36,847,018
10.553	School Breakfast Program	2,868,942
10.555	National School Lunch Program	8,323,682
10.556	Special Milk Program for Children	78,394
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	11,443,577
10.558	Child and Adult Care Food Program	4,021,870
10.559	Summer Food Service Program for Children	354,548
10.560	State Administrative Expenses for Child Nutrition	349,795
10.561	State Administrative Matching Grants for Food Stamp Program	6,457,382
10.565	Commodity Supplemental Food Program	345,081
10.568	Emergency Food Assistance Program (Administrative Costs)	100,902
10.572	WIC Farmers' Market Nutrition Program (FMNP)	54,881
10.576	Senior Farmers Market Nutrition Program	87,291
10.664	Cooperative Forestry Assistance	911,002
10.676	Forest Legacy Program	1,403,000
10.769	Rural Business Enterprise Grants	31,332
10.999	Organic Certification – Handlers	11,070
10.999	Organic Certification – Producers	90,991
10.999	Dietary Guidelines	13,655
10.999	USDA Cooperative Agreement-Battenkill (FW)	1,260
		<u>81,762,994</u>
	US Department of Defense:	
12.002	Procurement Technical Assistance For Business Firms	190,885
12.100	Aquatic Plant Control	397,000
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	23,954
12.401	National Guard Military Operations and Maintenance (O&M) Projects	9,583,902
12.404	National Guard Civilian Youth Opportunities	467,095
		<u>10,662,836</u>
	US Department of Housing and Urban Development:	
14.181	Supportive Housing for Persons with Disabilities	8,426
14.228	Community Development Block Grants / State's Program	9,560,020
14.231	Emergency Shelter Grants Program	341,000
14.235	Supporting Housing Program	264,383
14.239	HOME Investment Partnerships Program	4,016,337
14.999	Office of Fair Housing – Capacity Building	153,387
		<u>14,343,553</u>
	U.S. Department of the Interior:	
15.560	National Forensic Science Improvement Act	2,905
15.605	Sport Fish Restoration	3,002,232
15.608	Fish and Wildlife Management Assistance	44,598
15.611	Wildlife Restoration	1,146,050
15.615	Cooperative Endangered Species Conservation Fund	13,299
15.622	Sportfishing and Boating Safety Act	4,134
15.625	Wildlife Restoration and Conservation	73,309
15.631	Partners for Fish and Wildlife	18,866
15.633	Landowner Incentive	1,273

**STATE OF VERMONT**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2005

<b>CFDA number</b>	<b>Federal agency/program title</b>	<b>Expenditures</b>
15.634	State Wildlife Grants	\$ 444,016
15.810	National Cooperative Geologic Mapping Program	162,297
15.904	Historic Preservation Fund Grants-In-Aid	488,791
15.916	Outdoor Recreation – Acquisition, Development and Planning	1,004,898
15.999	Historic Preservation-National Park Service-Mount Independence ADA Trail Project	374
		<hr/> 6,407,042
	US Department of Justice:	
16.007	State Domestic Preparedness Equipment Support Program	8,039,235
16.523	Juvenile Accountability Incentive Block Grants	1,288,710
16.528	Training Grant to Stop Abuse and Sexual Assault of Older Individuals or Individuals with Disabilities	105,935
16.540	Juvenile Justice and Delinquency Prevention – Allocation to States	743,967
16.547	Victims Child Abuse	51,945
16.550	State Justice Statistics Program for Statistical Analysis Centers	23,243
16.554	National Criminal History Improvement Program (NCHIP)	395,150
16.560	National Institute of Justice Research, Evaluation and Development Project Grants	173,505
16.564	Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction	231,391
16.575	Crime Victim Assistance	1,339,554
16.576	Crime Victim Compensation	210,302
16.579	Byrne Formula Grant Program	2,012,879
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	97,091
16.585	Drug Court Discretionary Grant Program	176,355
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	325,470
16.588	Violence Against Women Formula Grants	926,695
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	460,856
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	554,631
16.591	Managing Released Sex Offenders	66,947
16.592	Local Law Enforcement Block Grants Program	241,077
16.593	Residential Substance Abuse Treatment for State Prisoners	326,997
16.607	Bulletproof Vest Partnership Program	1,588
16.609	Community Prosecution and Project Safe Neighborhoods	213,935
16.613	Scams Targeting the Elderly	7,597
16.710	Public Safety Partnership and Community Policing Grants	1,395,458
16.727	Enforcing Underage Drinking Laws Program	248,451
16.999	Drug Enforcement Administration – DEA	12,722
16.999	Marijuana Education	25,602
16.999	Department of Justice - Anti-Terrorism Task Force	40,000
16.999	Electronic Crimes	244
		<hr/> 19,737,532
	US Department of Labor:	
17.002	Labor Force Statistics	610,879
17.005	Compensation and Working Conditions	27,914
17.207	Employment Service	3,171,355
17.225	Unemployment Insurance	79,129,657
17.235	Senior Community Service Employment Program (SCSEP)	439,655
17.245	Trade Adjustment Assistance – Workers	1,305,327
17.258	WIA Adult Program	1,528,836
17.259	WIA Youth Activities	1,754,502
17.260	WIA Dislocated Workers	1,182,894
17.261	Employment and Training Administration Pilots, Demonstrations and Research Projects	890,917
17.266	Work Incentives Grant	431,920

STATE OF VERMONT  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2005

CFDA number	Federal agency/program title	Expenditures
17.503	Occupational Safety and Health – State Program	\$ 528,995
17.504	Consultation Agreements	383,513
17.600	Mine Health and Safety Grants	47,239
17.720	Disability Employment Policy Development	444,797
17.801	Disabled Veterans’ Outreach Program (DVOP)	174,359
17.804	Local Veterans’ Employment Representative Program	275,649
		<u>92,328,408</u>
	US Department of State:	
19.999	Help America Vote Act	<u>163,007</u>
	US Department of Transportation:	
20.005	Boating Safety Financial Assistance	416,883
20.106	Airport Improvement Program	1,969,477
20.205	Highway Planning and Construction	122,836,351
20.218	National Motor Carrier Safety	900,087
20.219	Recreational Trails Program	498,983
20.500	Federal Transit – Capital Investment Grants	1,001,889
20.505	Federal Transit – Metropolitan Planning Grants	321,718
20.509	Formula Grants for Other Than Urbanized Areas	3,878,470
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	1,597,446
20.514	Transit Planning and Research	255,857
20.515	State Planning and Research	62,247
20.600	State and Community Highway Safety	1,692,719
20.700	Pipeline Safety	106,790
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	97,613
20.999	Fatal Accident Reporting System	21,101
20.999	Law Enforcement Personnel Reimbursement	91,760
		<u>135,749,391</u>
	US Department of the Treasury:	
21.999	Bordergap	<u>12,700</u>
	US Equal Employment Opportunity Commission:	
30.002	Employment Discrimination – State and Local Fair Employment Practices Agency Contracts	<u>61,492</u>
	US National Foundation on the Arts and the Humanities:	
45.310	State Library Program	672,194
45.312	National Leadership Grant	71,488
		<u>743,682</u>
	US Department of Veterans Affairs:	
64.124	All-Volunteer Force Educational Assistance	<u>23,878</u>
	US Environmental Protection Agency:	
66.032	State Indoor Radon Grants	97,607
66.034	Surveys, Studies, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	205,221
66.436	Surveys, Studies, Investigations, Demonstrations and Training Grants and Cooperative Agreements - Section 104(B)(3) of the Clean Water Act	14,818
66.454	Water Quality Management Planning	142,370
66.458	Capitalization Grants for Clean Water State Revolving Funds	3,325,049
66.463	Water Quality Cooperative Agreements	35,786
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	49,591
66.468	Capitalization Grants for Drinking Water State Revolving Funds	6,474,200

STATE OF VERMONT  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2005

CFDA number	Federal agency/program title	Expenditures
66.470	Hardship Grants Program to Rural Communities	\$ 1,389
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	188,690
66.474	Water Protection Grants to the States	43,914
66.481	Lake Champlain Basin Program	159,654
66.500	Environmental Protection – Consolidated Research	22,803
66.605	Performance Partnership Grants	6,139,622
66.606	Surveys, Studies, Investigations and Special Purpose Grants	200,140
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	246,759
66.611	Environmental Policy and Innovation Grants	4,237
66.641	Wetlands Protection State Development	11,328
66.651	Innovative Community Partnership	3,875
66.700	Consolidated Pesticide Enforcement Cooperative Agreement	365,744
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	19,186
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	149,589
66.802	Superfund State, Political Subdivision and Indian Tribe Site-Specific Cooperative Agreements	124,476
66.805	Leaking Underground Storage Tank Trust Fund Program	625,772
66.808	Solid Waste Management Assistance Grants	30,749
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements Chemical Emergency Preparedness and Prevention (CEPP)	149,473
66.810	Technical Assistance Grant Program	8,000
66.811	Brownfields Pilots Cooperative Agreement	29,814
66.817	State and Tribal Response Program Grants	230,359
		<hr/>
		19,100,215
	US Department of Energy:	
81.039	National Energy Information Center	2,291
81.041	State Energy Program	669,392
81.042	Weatherization Assistance for Low-Income Persons	1,149,540
81.079	Regional Biomass Energy Programs	18,021
		<hr/>
		1,839,244
	US Federal Emergency Management Administration:	
83.536	Flood Mitigation Assistance	2,771
83.544	Public Assistance Grants	141,353
83.547	First Responder Counter-Terrorism Training Assistance	8,917
83.557	Pre-Disaster Mitigation	108,019
83.562	State and Local All Hazards Emergency Operations Planning	56,942
83.564	Citizencorps	51,373
83.565	Community Emergency Response Teams	65,682
		<hr/>
		435,057
	US Department of Education:	
84.002	Adult Education – State Grant Program	1,111,772
84.010	Title I Grants to Local Educational Agencies	25,906,487
84.011	Migrant Education – State Grant Program	708,597
84.013	Title I Program for Neglected and Delinquent Children	419,230
84.027	Special Education – Grants to States	20,240,736
84.048	Vocational Education – Basic Grants to States	3,827,421
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	8,789,255
84.169	Independent Living – State Grants	195,858
84.173	Special Education – Preschool Grants	720,987
84.177	Rehabilitation Services – Independent Living Services for Older Individuals who are Blind	284,783
84.181	Special Education – Grants for Infants and Families with Disabilities	2,194,384
84.184	Safe and Drug-Free Schools and Communities - National Programs	105,727
84.185	Byrd Honors Scholarships	81,000
84.186	Safe and Drug-Free Schools and Communities – State Grants	1,874,274

STATE OF VERMONT  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2005

CFDA number	Federal agency/program title	Expenditures
84.187	Supported Employment Services for Individuals with Severe Disabilities	\$ 369,435
84.194	Bilingual Education Support Services	9,675
84.196	Education for Homeless Children and Youth	151,952
84.213	Even Start – State Educational Agencies	1,239,480
84.215	Fund for the Improvement of Education	546,446
84.224	Assistive Technology	997,014
84.235	Rehabilitation Services Demonstration and Training Programs	675,945
84.243	Tech-Prep Education	484,225
84.255	Literacy Programs for Prisoners	370,534
84.265	Rehabilitation Training – State Vocational Rehabilitation Unit In-Service Training	36,439
84.287	Twenty-First Century Community Learning Centers	3,734,195
84.298	State Grants for Innovative Programs	1,471,645
84.318	Education Technology State Grants	2,328,730
84.323	Special Education – State Personnel	31,859
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	168,697
84.330	Advanced Placement Program	127,116
84.332	Comprehensive School Reform Demonstration	617,398
84.346	Vocational Education - Occupational and Employment Information State Grants	117,518
84.352	School Renovation Grants	616,066
84.357	Reading First State Grants	1,836,837
84.365	English Language Acquisition Grants	526,616
84.366	Mathematics and Science Partnerships	498,096
84.367	Improving Teacher Quality State Grants	14,095,574
84.369	Grants for State Assessments and Related Activities	2,727,058
		<u>100,239,061</u>
	US Department of Health and Human Services:	
93.003	Public Health and Social Services Emergency Fund	1,173,534
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	147,697
93.041	Special Programs for the Aging – Title VII, Chapter 3 – Programs for Prevention of Elder Abuse, Neglect, and Exploitation	25,393
93.042	Special Programs for the Aging – Title VII, Chapter 2 – Long Term Care Ombudsman Services for Older Individuals	70,101
93.043	Special Programs for the Aging-Title III, Part D – Disease Prevention and Health Promotion Services	112,157
93.044	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	1,683,678
93.045	Special Programs for the Aging – Title III, Part C -Nutrition Services	2,661,900
93.048	Special Programs for the Aging – Title IV – and Title II – Discretionary Projects	257,678
93.052	National Family Caregiver Support	826,309
93.053	Nutrition Services Incentive Program	600,668
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	276,473
93.110	Maternal and Child Health Federal Consolidated Programs	313,290
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	97,793
93.127	Emergency Medical Services for Children	198,502
93.130	Primary Care Services Resource Coordination and Development	114,708
93.136	Injury Prevention and Control Research and State and Community Based Programs	226,196
93.150	Projects for Assistance in Transition from Homelessness (PATH)	321,966
93.184	Disabilities Prevention	171,575
93.197	Childhood Lead Poisoning Prevention Projects-State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	441,499
93.217	Family Planning – Services	859,736

STATE OF VERMONT  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2005

CFDA number	Federal agency/program title	Expenditures
93.230	Consolidated Knowledge Development and Application Program (KD&A)	\$ 64,454
93.234	Traumatic Brain Injury State Demonstration Grant Program	67,552
93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	83,607
93.241	State Rural Hospital Flexibility Program	266,391
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	253,723
93.251	Universal Newborn Hearing Screening	171,600
93.256	State Planning Grants for Health Care Access for the Uninsured	77,764
93.259	Rural Access to Emergency Devices Grant	397,615
93.268	Immunization Grants	2,563,516
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	11,800,018
93.301	Small Rural Hospital Improvement Grant Program	77,992
93.556	Promoting Safe and Stable Families	810,977
93.558	Temporary Assistance for Needy Families	36,312,781
93.563	Child Support Enforcement	6,831,216
93.566	Refugee and Entrant Assistance – State Administered Programs	300,284
93.568	Low-Income Home Energy Assistance	14,024,724
93.569	Community Services Block Grant	3,580,427
93.575	Child Care and Development Block Grant	11,753,063
93.576	Refugee and Entrant Assistance – Discretionary Grants	59,647
93.583	Refugee and Entrant Assistance – Wilson/Fish Program	156,819
93.586	State Court Improvement Program	99,018
93.590	Community – Based Child Abuse Prevention Grants	225,165
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	6,614,077
93.597	Grants to States for Access and Visitation Programs	103,909
93.599	Chafee Education and Training Vouchers Program (ETV)	101,594
93.600	Head Start	141,626
93.617	Voting Access for individuals with Disabilities – Grants to States	106,161
93.630	Developmental Disabilities Basic Support and Advocacy Grants	541,313
93.631	Developmental Disabilities Projects of National Significance	147,989
93.643	Children’s Justice Grants to States	42,096
93.645	Child Welfare Services – State Grants	649,005
93.658	Foster Care – Title IV-E	10,533,867
93.659	Adoption Assistance	6,911,000
93.667	Social Services Block Grant	8,338,183
93.669	Child Abuse and Neglect State Grants	6,817
93.671	Family Violence Prevention and Services/Grants for Battered Women’s Shelters – Grants to States and Indian Tribes	705,742
93.674	Chafee Foster Care Independence Program	614,475
93.767	State Children’s Insurance Program	3,811,771
93.768	Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	733,655
93.775	State Medicaid Fraud Control Units	400,882
93.777	State Survey and Certification of Health Care Providers and Suppliers	1,115,207
93.778	Medical Assistance Program	549,861,484
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	804,088
93.913	Grants to States for Operation of Offices of Rural Health	146,798
93.917	HIV Care Formula Grants	886,309
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	501,683
93.940	HIV Prevention Activities – Health Department Based	1,342,714
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	121,547

**STATE OF VERMONT**  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2005

<b>CFDA number</b>	<b>Federal agency/program title</b>	<b>Expenditures</b>
93.958	Block Grants for Community Mental Health Services	\$ 796,466
93.959	Block Grants for Prevention and Treatment of Substance Abuse	5,132,632
93.977	Preventive Health Services – Sexually Transmitted Disease Control Grants	196,677
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	264,728
93.991	Preventive Health and Health Services Block Grant	333,220
93.994	Maternal and Child Health Services Block Grant to the States	1,844,100
93.999	ADAP Data Collection	40,370
		<u>704,451,391</u>
	US Corporation for National Community Service:	
94.003	State Commissions	113,999
94.004	Learn and Serve America-School and Community Based Programs	49,518
94.006	AmeriCorps	895,871
94.007	Planning and Program Development Grants	30,545
94.009	Training and Technical Assistance	84,749
		<u>1,174,682</u>
	US Social Security Administration:	
96.001	Social Security – Disability Insurance	3,293,299
96.007	Social Security Research and Demonstration	221,048
		<u>3,514,347</u>
	US Department of Homeland Security:	
97.004	State Domestic Preparedness Equipment Support Program	9,760,638
97.017	Pre-Disaster Mitigation Competitive	125,990
97.023	Community Assistance Program State Support Services Element (CAP – SSSE)	132,342
97.029	Flood Mitigation Assistance	10,000
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	1,958,464
97.039	Hazard Mitigation Grant	214,396
97.041	National Dam Safety Program	53,389
97.042	Emergency Management Performance Grants	746,786
97.043	State Fire Training System Grant	27,127
97.067	Homeland Security Grant Program	1,246,750
97.070	Map Modernization Management Support	14,437
		<u>14,290,319</u>
	Total Monetary Federal Financial Assistance	<u>1,207,040,831</u>
	Nonmonetary Awards:	
10.555	National School Lunch Program – Commodities	791,277
10.558	Child and Adult Care Food Program – Commodities	15,079
10.569	Emergency Food Assistance Program (Food Commodities)	727,072
39.003	Donation of Federal Surplus Personal Property	1,473,784
93.268	Immunization Grants – Nonmonetary	3,633,017
	Total Nonmonetary Federal Financial Assistance Expended	<u>6,640,229</u>
	Total Federal Financial Assistance Expended	<u>\$ 1,213,681,060</u>

**STATE OF VERMONT**  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2005

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

The accounting and reporting policies of the State of Vermont applied in the preparation of the Schedule of Expenditures of Federal Awards 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 basic financial statements as of and for the year ended June 30, 2005. The Schedule of Expenditures of Federal Awards (the "Schedule") does not include component units identified in the notes to the basic financial statements.

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

The information in the accompanying Schedule 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. Federal financial assistance does not include direct federal cash payments to individuals.
2. Type A and Type B Programs - OMB Circular A-133 establishes 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 \$3,641,043 in expenditures, distributions, or issuances for the fiscal year ended June 30, 2005.

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

The accompanying Schedule was prepared on the cash basis of accounting as reported on the federal financial reports submitted to the grantor agencies. These reports may not reconcile to the State's central accounting system, which is the primary source for information used to prepare the State's basic financial statements.

**(d) *Matching Costs***

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

**STATE OF VERMONT**  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2005

**(2) Categorization of Expenditures**

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

The State cannot readily determine amounts paid to subrecipients. As such, those amounts have not been identified separately on the Schedule.

**(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 US 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	\$ 6,741,502
Federal	<u>72,388,155</u>
	<u>\$ 79,129,657</u>

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

The State receives Federal Aviation Administration (FAA) funds from the US Department of Transportation. The State excludes from its Schedule of Expenditures of Federal Awards FAA funds received on behalf of the City of Burlington, Vermont (the "City"), because the State does not perform any program responsibilities or oversight of these funds. Rather its sole function is to act as a conduit between the federal awarding agency and the City, who owns and operates the airport.

**STATE OF VERMONT**  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2005

**(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.

National School Lunch Program - Commodities

The National School Lunch Program assists states in providing a nutritious food service program for low-income children through cash grants and food commodities, such as bread, meat, and other commodities. Total federal expenditures included in the Schedule for CFDA #10.555, National School Lunch Program – Commodities, represent the federal government’s acquisition value of the food commodities provided to the State.

Child and Adult Food Care Program - Commodities

The Child and Adult Food Care Program assists states through grants-in-aid and other means to initiate and maintain nonprofit food service programs for children, elderly or impaired adults in nonresidential day care facilities and children in emergency shelters. Total federal expenditures included in the Schedule for CFDA #10.558, Child and Adult Food Care Program – Commodities, represent the federal government’s acquisition value of the food commodities provided to the State.

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.

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 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.

**STATE OF VERMONT**  
 Schedule of Current Year Findings and Questioned Costs  
 For the Year ended June 30, 2005

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

- (a) The independent auditor's report on the State's basic financial statements expressed an unqualified opinion.
- (b) The audit disclosed one reportable condition in internal control over financial reporting based on an audit of the basic financial statements performed in accordance with *Government Auditing Standards*. This reportable condition was also considered to be a material weakness.
- (c) No instances of noncompliance considered material to the basic financial statements were disclosed by the audit.
- (d) The audit disclosed 23 reportable conditions in internal control over compliance with requirements applicable to a major federal awards program. Of these reportable conditions 15 were also considered to be material weaknesses.
- (e) The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion, except for Formula Grants for Other than Urbanized Areas (CFDA #20.509); Highway Planning and Construction (CFDA #20.205); Centers for Disease Control and Prevention – Investigations and Technical Assistance (CFDA #93.283); Immunization Grants (CFDA #93.268); Block Grants for Prevention and Treatment of Substance Abuse (CFDA #93.959); Temporary Assistance for Needy Families (CFDA #93.558); State Administrative Matching Grants for Food Stamp Program (CFDA #10.561); Medical Assistance Program (CFDA #93.778); National Guard Military Operations and Maintenance (CFDA #12.401); and Homeland Security Cluster (CFDA #16.007; #97,004; and #97.067).
- (f) The audit disclosed findings 2005-2 through 2005-27 that are required to be reported by OMB Circular A-133.
- (g) The State's major programs were:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
<u>Food Stamp Cluster</u>	
10.551	Food Stamps
10.561	State Administrative Matching Grants for Food Stamp Program
<u>Highway Planning and Construction Cluster</u>	
20.205	Highway Planning and Construction

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2005

<u>CFDA Number</u>	<u>Name of Federal Program</u>
<u>Federal Transit Administration Cluster</u>	
20.500	Federal Transit - Capital Investment Grants
<u>Medicaid Cluster</u>	
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program
<u>Homeland Security Cluster</u>	
16.007	State Domestic Preparedness Equipment Support Program
97.004	State Domestic Preparedness Equipment Support Program
97.067	Homeland Security Grant Program
<u>Other Programs</u>	
10.557	Special Supplemental Program for Women, Infants, and Children
12.401	National Guard Military Operations and Maintenance
14.228	Community Development Block Grants/State Program
14.239	HOME Investment Partnership Program
20.509	Formula Grants for Other than Urbanized Areas
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
84.287	Twenty-First Century Community Learning Centers
93.268	Immunization Grants
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.767	State Children’s Insurance Program
93.959	Block Grants for Prevention and Treatment of Substance Abuse

(h) A threshold of \$3,641,043 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, 2005

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

**Finding 2005 -1**

**Statewide Capital Asset Issues**

Governments routinely acquire capital assets in the normal course of business. Accounting principles generally accepted in the United States of America requires government entities to record and report capital assets in their financial statements. Capital assets include infrastructure assets such as roads and bridges. Capital assets also include buildings, vehicles, and communications equipment. The assumptions underlying the financial statement presentation of capital assets require that management establish policies, procedures and controls to record and report acquisitions meeting its capitalization policy.

We found that the State failed to ensure that all agencies and departments have the policies, procedures and controls to properly report capital assets in accordance with accounting principles generally accepted in the United States of America. The processes to capture the underlying data are not consistently applied, and are often misunderstood or ignored by departments. As a result, the audit identified a number of material adjusting entries that were required to properly report the balance of capital assets as of June 30, 2005. While these matters were most pronounced within the Agency of Transportation, similar errors were found in the Department of Buildings & General Services and the Department of Public Safety. This is the second consecutive year that the audit identified significant misstatements in the Agency of Transportation's accounting for capital assets.

Consistent with the finding and recommendation provided in connection with the audit of the June 30, 2004 financial statements, the failure to consistently apply its capitalization policy and to ensure the accuracy of the information required to prepare complete and accurate financial statements constitutes a material weakness. Management should ensure its capitalization policy is consistently applied by all agencies and departments. This may require an evaluation of the front-end processes and controls in place to establish projects in the accounting system. Particular attention should be paid to the financial management policies within the Agency of Transportation.

STATE OF VERMONT  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2005

**Finding 2005 -1, Continued**

**Management's Response and Corrective Action**

The Department of Finance and Management and the Agency of Transportation have provided responses to the above finding as follows:

The Department of Finance and Managements' Response:

The Asset Management Procedure (VISION procedure #1) issued by the Department of Finance and Management on May 1, 2001 and revised on September 30, 2005, requires State departments to record all capital assets in VISION at the time of acquisition. State departments are also required to conduct an annual physical inventory of capital assets and ensure that all additions, deletions and transfers of assets have been properly recorded in VISION. The Agency or Department head is required to annually sign and submit an Asset Inventory Verification Form to the Department of Finance and Management certifying that this has been completed.

The Department of Finance and Management in fiscal year 2005 conducted its 1st annual *Self-Assessment of Internal Controls Survey* which required all State departments to evaluate the effectiveness of their controls over key financial processes. This survey showed that 96% of departments said they followed the Asset Management Procedure and 40% said they had formal written procedures for performing the required annual physical inventory.

As a result of this survey, in February 2006, the Secretary of Administration issued *Internal Control Standards: A Guide for Managers* to all agency, department heads and business managers. This document assists state employees in managerial roles in fulfilling their responsibilities relating to internal controls. During fiscal year 2006, the Department of Finance and Management has begun conducting operational reviews of the State's financial operations, has begun issuing Best Practices series which support and expand on the internal controls framework presented in *Internal Control Standards: A Guide for Managers*, is currently preparing for its 2nd annual *Self-Assessment of Internal Controls Survey*, and has dedicated staff resources to assist departments with documenting their policies and procedures. The Department of Finance and Management will be issuing an Asset Management Best Practice document in July 2006, by the end of calendar 2006 will conduct an operational review of State departments' documented Asset Management procedures and the effectiveness of those procedures, and will hold an Asset Management seminar for state employees responsible for accounting for capital assets.

The Department of Finance and Management intends to implement the projects Module after the completion of the VISION – Financials upgrade in fiscal year 2007, and VISION – HCM Time & Labor needs assessment and implementation to be started in fiscal year 2007. The Agency of Transportation will be the first Agency implementing the Projects Module which will allow the Agency to do project level accounting in VISION and directly interface completed projects to capitalization in the Asset Management module. Other departments, such as Buildings and General Services, will also be implementing this module in the future.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2005

**Finding 2005 -1, Continued**

Agency of Transportation Response:

In our review of infrastructure items during fiscal year 2005, we discovered two projects that were duplicated; the amounts account for approximately 93% of the total adjusting entries required to properly report the balance of capital assets as of June 30, 2005. The two duplications are unique errors and not a system-wide condition. The total adjustments are about 1% of the total beginning balance of infrastructure.

In our review of capital equipment during fiscal year 2005, prompted by the State Auditor's Office, we discovered equipment items that would have been omitted had the test not been conducted. The Agency has implemented a monthly review of payments to ensure that the risk of omissions is reduced to a low level. Additionally, we realize training and awareness are essential to success; in our periodic business meetings, Division business office staff receives updates of procedures and current issues about capital asset reporting.

The State Agency of Administration has made us fully aware of the need for policies, procedures and controls to properly report capital assets in accordance with State policy. These policies are incorporated into our procedures. We consistently work to identify risks that have contributed to better controls over the process used in reporting equipment and infrastructure accurately.

**Scheduled Completion Date:** June 30, 2007.

**Contact Person(s)**

James Reardon, Commissioner of Finance and Management, Department of Finance  
and Management, (802) 828-2376.

Tom Daniel, Director of Finance and Administrative Services, Agency of Transportation, (802) 828-2667.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2005

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

**Finding 2005-2**

**Agency of Transportation**

**Highway Planning and Construction (CFDA #20.205)**

**Requirement**

Cost must be reasonable and necessary for the performance and administration of federal awards. Costs must be allocable to the federal awards under the provisions of the cost principles or Cost Accounting Standards Board Standards, as applicable. A cost is allocable to a particular cost objective (e.g., a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such cost objectives in accordance with relative benefits received.

**Condition Found**

In order to achieve the objectives of the program, the Agency of Transportation (the Agency) incurs costs related to amounts paid for construction and personal services contracts. During our testwork over the allowableness of the costs charged to this program, we noted the following:

*Construction Contracts*

- A. For one of thirty-five transactions selected for testwork, the invoice amount paid exceeded the amount billed to the Federal Highway Administration (FHWA). The total amount overpaid to the vendor was \$7,895. It was noted that FHWA was not billed for the overpayment.
- B. For one of thirty-five transactions selected for testwork, the amount paid to the contractor exceeded the maximum limiting amount per the contract by \$2,805. No amendments to the contract were noted during our review.

*Personal Services Contracts*

- C. For one of thirty invoices selected for testwork, the transaction related to an amount that had been transferred from one federal project number to another. During our testwork over this transaction, we were unable to obtain documentation to support the amount that was originally paid to the vendor. As a result, we were unable to determine whether or not the transfer represented an allowable cost. The amount in question is \$67,610.

The above findings appear to be isolated.

STATE OF VERMONT  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2005

**Finding 2005 – 2, Continued**

**Questioned Costs**

\$70,415 – represents amounts identified in items B, and C above.

**Recommendation**

We recommend that the Agency evaluate its existing policies, procedures and controls to ensure that all expenditures are properly reviewed and approved prior to the expenditures being charged to the federal grant.

**Management's Response and Corrective Action**

We agree with the recommendation. The identified exceptions are isolated in nature.

With respect to finding A, a transaction coding error resulted in an over payment to the Vendor that has been corrected. Adequate procedures are in place to detect this type of error.

With respect to finding B, a reconciliation adjustment error resulted in an over billed amount to the FHWA that has been corrected. Adequate procedures are in place to detect this type of error.

With respect to finding C, the amount paid to the Vendor is supported and correct; however, internally the initial payment was charged to the incorrect project and the amount transferred to the correct project of \$67,000 was not properly documented. A revised improved procedure to identify the requirements for transfers of this type is being written. Additionally, the specific basis for the transfer amount is being analyzed and may result in a correction.

We consider findings A and B complete. An improved set of procedural requirements for transfers is being written to satisfy finding C and an analysis for the \$67,000 internal transfer is under way.

**Scheduled Completion Date:** March 31, 2006.

**Contact Person(s)**

Debbie Morse, Billings Supervisor, Agency of Transportation, (802) 828-5715.

Helen Estroff, Business Manager, Program Development, Agency of Transportation, (802) 828-2860.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2005

**Finding 2005-3**

**Agency of Transportation**

**Highway Planning and Construction (CFDA #20.205)**

**Requirement**

Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractors comply with the requirement of the Davis-Bacon Act and the Department of Labor regulations (29 CFR part 5, "Labor Standards Provision Applicable to Contracts Governing Federally Financed and Assisted Construction"). This includes a requirement for the contractor or subcontractor to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and related statement of compliance.

**Condition Found**

Contractors are required to submit weekly certified payroll reports to the Resident Engineer (RE) on the construction site. As the payroll reports are received, the RE manually enters the payroll information onto a checklist entitled "Submission of Payroll with Required Certifications." The checklists indicate the project name, number and the prime or subcontractor. The checklist also includes columns to enter the payroll report in chronological number, the pay period ending date, the date the payroll report was received and the date that the payroll report was forwarded to the Office of Civil Rights and Labor Compliance within the Agency of Transportation (the Agency). Prior to sending the payroll reports to the Office of Civil Rights and Labor Compliance, the RE signs a form, certifying that they have reviewed the payroll report noting any discrepancies and any missing wage rate classifications.

During our testwork over compliance with the Davis-Bacon Act, we noted the following:

- A. For four of twenty-five contractors selected, the payroll reports were received from the contractor after the required date of submission.
- B. For thirteen of twenty-five contractors selected, the date that the payroll report was received was not completed on the checklist and as a result, we were unable to determine whether or not the payroll report was submitted on time.
- C. For two of twenty-five contractors selected, the RE did not sign the payroll report certifying that they had reviewed the payroll report.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2005

**Finding 2005-3, Continued**

The lack of consistently applied control procedures could lead to contractors using rates that are not in compliance with the Davis-Bacon Act and the Agency not being able to monitor the noncompliance in a timely manner.

This finding is considered systemic in nature and has been reported as a reportable condition.

**Questioned Costs**

None identified.

**Recommendation**

We recommend that the Agency evaluate its existing policies, procedures and controls to ensure that all required payroll reports are received and reviewed timely by the Resident Engineer.

**Management's Response and Corrective Action**

We agree with the recommendation. Written procedures are in place to properly document the timely submissions of contractor payroll reports. Additional Management emphasis to ensure implementation of this procedure by the Resident Engineers is being made.

**Scheduled Completion Date:** Completed.

**Contact Person(s)**

Dave Hosking, Civil Engineer VI, Agency of Transportation, (802) 828-0105.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2005

**Finding 2005-4**

**Agency of Transportation**

**Highway Planning and Construction (CFDA #20.205)**

**Requirement**

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

**Condition Found**

The Agency of Transportation (the Agency) enters into various grant agreements with subrecipients to provide services related to highway planning and construction. During our testwork over subrecipient monitoring, we noted the following:

- A. Five of twenty-five grant agreements did not contain a reference requiring the grantee to certify whether or not they had been suspended or debarred nor was there any evidence that the Agency had informed the subrecipient of the requirement.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005-4, Continued**

- B. During our review over the Agency's process for obtaining and reviewing subrecipient audit reports for those grants with expenditures greater than \$500,000, we noted that the Agency does not have a formal process in place for reviewing the reports and ensuring that a management decision is issued within the six-month time period. The Agency has an Audit Section that obtains and reviews the audit reports and issues a standard letter to the subrecipient that outlines the results of the review. However, the Audit Section does not ensure that any audit findings are followed up on. Any follow up that is performed is done by the grant managers assigned to each grant. The documentation of this follow-up, if any, is not consistent and as a result, it is difficult to determine whether or not the management decision was actually made within the six-month time period required under OMB Circular A-133.
- C. As part of the during-the-award monitoring process, we noted that site visits are made to subrecipients, however documentation of such site visits varies significantly among Divisions within the Agency, if there is any documentation at all. We noted that for six of the twenty-three subrecipient grants selected for testwork that had a site visit that the documentation of site visits was not consistent.

The lack of consistently applied control procedures over subrecipient monitoring could lead to the Agency not properly monitoring subrecipients. In addition, payments could be made to subrecipients that are not in accordance with grant agreement requirements.

This finding is considered systemic in nature and has been reported as a material weakness.

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Agency evaluate its existing policies, procedures and controls to ensure that all subrecipients are monitored on a consistent basis to ensure compliance with the above stated requirements.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005-4, Continued**

**Management's Response and Corrective Action**

We agree with the recommendation.

With respect to finding A, Agency policy requires that grant agreements with Municipalities include a suspension and debarment grant clause. When a grant is reviewed for quality before distribution, the review will include a check that the debarment clause is not omitted. The vast majority of Agency grants include the debarment clause. There should not be any exceptions in newly awarded grants issued from March 1, 2006. A quality review of grants will occur before distribution to help ensure the clause is not omitted.

With respect to finding B, the Agency (each Division) has adequate written procedures in place for obtaining and reviewing audit reports and issuing a management decision. The State Department of Finance and Management maintains an adequate grant tracking system to control most issues expressed in this finding. The issues in this finding, we believe, are primarily about lack of documentation of the process accomplished by grant project managers, as compared to any identified non-compliance with A-133 requirements. The Agency lacks, however, adequate follow-up on its own compliance with these procedures to clearly document what it accomplishes. A very significant aspect of monitoring at VTrans is that significant awards to Municipalities, Regional Planning Commissions and Transit Providers, all have Project Managers assigned who conduct site visits and monitor the subrecipients on a regular basis. This ongoing relationship is a key control over the management of grants. The Agency, however, will implement a new control procedure over all Divisions. This responsibility is assigned to the Accounting Section of Finance & Administration in support of Agency Division's efforts. The focus is to monitor the key elements of Division compliance with its own procedures. Key elements of the monitoring process reviewed will be documented.

With respect to C, adequate procedures are in place to document site visits. Added management emphasis is needed to ensure visits are documented. The new monitoring process will provide a means of confirmation.

With respect to findings B and C, a new process for monitoring the Agency status with its monitoring of subrecipients will help ensure consistency and follow through among the various Agency Divisions and sections. The function for oversight documentation is assigned to the Agency Accounting unit. Agency Audit will help resolve any A-133 or other financial report technical issues if they are requested.

**Scheduled Completion Date:** March 1, 2006 for finding A and March 31, 2006 for findings B and C.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2005

**Finding 2005-4, Continued**

**Contact Person(s)**

Mike Pollica, Accounting Unit Administrator, Agency of Transportation, (802) 828-0173.

Marlene McIntyre, Senior Accountant, Agency of Transportation, (802) 828-3444.

Dave Lawlor, Chief of Audit, Agency of Transportation, (802) 828-3506.

Edna Martineau, Chief of Contract Administration, Agency of Transportation, (802) 828-2089.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005-5**

**Agency of Transportation**

**Highway Planning and Construction (CFDA #20.205)**

**Requirement**

Indirect costs are those costs that benefit common activities and, therefore, cannot be readily assigned to a specific direct cost objective or project. Three different types of indirect cost rates can be approved by the cognizant agency for indirect cost negotiation: predetermined, fixed, and provisional/final. The Vermont Agency of Transportation (the Agency) uses a predetermined rate. Predetermined rates are established for the current or multiple future period(s) based on current data (usually data from the most recently ended fiscal year, known as the base period). Predetermined rates are not subject to adjustment, except under very unusual circumstances.

**Condition Found**

On an annual basis, the Agency calculates a load factor percentage that is applied to all direct payroll charges. The load factor is a calculation that combines the costs for payroll related charges such as insurance, retirement benefits, and paid time off and allocates these costs to the direct payroll charges incurred for each program. The load factor that was established for the State fiscal year ending June 30, 2005 was 67.90%. During our testwork over payroll, we noted that the Agency erroneously used the fiscal 2004 load factor rate of 74.62%. This resulted in an over charge of \$516,000 to the Highway Planning and Construction program for the period ending June 30, 2005.

The lack of effective control procedures in place to review costs charged to the program has lead to unallowable costs being allocated to the federal program.

This finding is considered systemic in nature and has been reported as a material weakness.

**Questioned Costs**

\$516,000 – the amount identified above related to the over charge of the load factor rate.

**Recommendation**

We recommend that the Agency evaluate its existing policies, procedures and controls to ensure that the Agency has controls in place to review all payroll charges to ensure that they are reasonable and allocable to the program. This includes ensuring that the load factor is reviewed on an annual basis to determine whether or not the system is applying the correct rate.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005-5, Continued**

**Management's Response and Corrective Action**

We agree with the recommendation. Written procedures are being revised to fully identify all table updates that are needed to accurately update the load factor. Annually, one section will update the tables and another section will review the table entries and test output to ensure accuracy. A negotiated rate effective February 1, 2006 was agreed to with the Federal Highway Administration (FHWA) that will return the over recovery to them by June 30, 2006. The adjusted rate effective February 1, 2006 has been entered into the accounting system and confirmed. Final revised written procedures need to be completed.

**Scheduled Completion Date:** March 31, 2006.

**Contact Person(s)**

Mike Pollica, Accounting Unit Administrator, Agency of Transportation, (802) 828-0173.

Mike Amell, Accountant, Agency of Transportation, (802) 828-3596.

Phil Cross, Business Manager D, Agency of Transportation, (802) 828-0764.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005-6**

**Agency of Transportation**

**Highway Planning and Construction (CFDA #20.205)**

**Requirement**

Non-federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Under rules in effect prior to November 26, 2003, covered transactions included procurement contracts for goods or services equal to or in excess of \$100,000. A change in the nonprocurement suspension and debarment rule took effect on November 26, 2003. As of that date only those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria are considered "covered transactions."

**Condition Found**

During our testwork over the procurement process, we noted that six of thirty contracts selected for testwork, we were unable to obtain documentation that the Agency of Transportation (the Agency) had either obtained a certification from the vendor or had verified themselves that the contractor had not been suspended or debarred from receiving federal funds.

The lack of applying consistent procedures over the verification of suspension and debarment could result in unauthorized contracts with unallowed vendors.

This finding is considered systemic in nature and has been reported as a reportable condition.

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Agency evaluate its existing policies, procedures and controls to ensure that the Agency is properly monitoring vendors for compliance with suspension and debarment requirements.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005-6, Continued**

**Management's Response and Corrective Action**

We agree with the recommendation. VTrans requires all contractors to complete a sworn debarment and non-collusion affidavit before submitting a bid and none are excused from this requirement. However, the debarment clause in some railroad agreements and some utilities agreements has been omitted. Added management emphasis is needed to ensure compliance with agency policy. When these agreements are reviewed for quality before distribution, a check will be made to help ensure the debarment clause is not omitted.

**Scheduled Completion Date:** March 1, 2006.

**Contact Person(s)**

Dave Lawlor, Chief of Audit, Agency of Transportation, (802) 828-3506.

Edna Martineau, Chief of Contract Administration, Agency of Transportation, (802) 828-2089.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005-7**

**Agency of Transportation**

**Formula Grants for Other than Urban Areas (CFDA #20.509)**

**Requirement**

Indirect costs are those costs that benefit common activities and, therefore, cannot be readily assigned to a specific direct cost objective or project. Three different types of indirect cost rates can be approved by the cognizant agency for indirect cost negotiation: predetermined, fixed, and provisional/final. The Vermont Agency of Transportation (the Agency) uses a predetermined rate. Predetermined rates are established for the current or multiple future period(s) based on current data (usually data from the most recently ended fiscal year, known as the base period). Predetermined rates are not subject to adjustment, except under very unusual circumstances.

**Condition Found**

On an annual basis, the Agency calculates a load factor percentage that is applied to all direct payroll charges. The load factor is a calculation that combines the costs for payroll related charges such as insurance, retirement benefits, and paid time off and allocates these costs to the direct payroll charges incurred for each program. The load factor that was established for the State fiscal year ending June 30, 2005 was 67.90%. During our testwork over payroll, we noted that the Agency had erroneously used the fiscal 2004 load factor rate of 74.62%. This resulted in an overcharge of \$15,981 to Formula Grants for Other Than Urbanized Areas for the period ending June 30, 2005.

The lack of effective control procedures in place to review costs charged to the program has lead to unallowable costs being allocated to the federal program.

This finding is considered systemic in nature and has been reported as a material weakness.

**Questioned Costs**

\$15,981 – the amount identified above related to the over charge of the load factor rate.

**Recommendation**

We recommend that the Agency evaluate its existing policies, procedures and controls to ensure that the Agency has controls in place to review all payroll charges to ensure that they are reasonable and allocable to the program. This includes ensuring that the load factor is reviewed on an annual basis to determine whether or not the system is applying the correct rate.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005-7, Continued**

**Management's Response and Corrective Action**

We agree with the recommendation. Written procedures are being revised to fully identify all table updates that are needed to accurately update the load factor. Annually, one section will update the tables and another section will review the table entries and test output to ensure accuracy. A negotiated rate effective February 1, 2006 was agreed to with the FHWA that will return the over recovery to the FTA by June 30, 2006. The adjusted rate effective February 1, 2006 has been entered into the accounting system and confirmed. Final revised written procedures need to be completed.

**Scheduled Completion Date:** March 31, 2006.

**Contact Person(s)**

Mike Pollica, Accounting Unit Administrator, Agency of Transportation, (802) 828-0173.  
Mike Amell, Accountant Agency of Transportation, (802) 828-3596.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005 – 8**

**Department of the Military**

**National Guard Military Operations and Maintenance Projects (CFDA #12.401)**

**Requirement**

In accordance with OMB Circular A-87, costs must be reasonable and necessary for the performance and administration of federal awards. Costs must be allocable to the federal awards under the provisions of the cost principles or Cost Accounting Standards Board Standards (CASB), as applicable. A cost is allocable to a particular cost objective (e.g., a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such cost objectives in accordance with relative benefits received.

**Condition Found**

All employees are required to prepare and submit a signed timesheet as part of the payroll process. The timesheet is reviewed and approved by the employees' direct supervisor. We noted that seven of twenty-five timesheets selected for the testwork were not signed by the employees' direct supervisor. The lack of required approval of employee timesheets by authorized personnel could lead to unallowable payroll costs being charged to the federal program.

This finding is considered systemic in nature and has been reported as a reportable condition.

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Department of the Military (the Department) evaluate its existing policies, procedures and controls to ensure that expenditures charged to federal programs are in compliance with OMB Circular A-87. In addition, we recommend the Department review its procedures for approving and reviewing all timesheets are in accordance with state policy.

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Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005 – 8, Continued**

**Management's Response and Corrective Action**

This has been corrected and procedures are in place. Supervisors are to sign all time sheets.

**Scheduled Completion Date:** Corrected.

**Contact Person(s)**

Rob Gingras, Facility Maintenance Officer, (802) 338-3041.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005-9**

**Department of the Military**

**National Guard Military Operations and Maintenance Projects (CFDA #12.401)**

**Requirement**

National Guard Operations and Maintenance agreements are funded for one year appropriations and, as such, obligations may not be incurred against federal funds for a specified year before or after the federal fiscal year in which the funds were appropriated.

**Condition Found**

During our testwork over nonpersonal expenditures, we noted that one of twenty-five expenditures selected for testwork represented charges to the program for supplies that had been removed from inventory in prior fiscal years. Due to an oversight and the nature of the journal entry transfer, the amounts had not been properly recorded in prior years. The total amount recorded during the year ending June 30, 2005 that should have been charged against prior appropriations in accordance with the period of availability requirements was \$33,540.

**Questioned Costs**

\$33,540 – the amount of transfer of supplies that were used in prior years.

**Recommendation**

We recommend that the Department of the Military (the Department) evaluate its existing policies, procedures and controls to ensure that expenditures charged to federal programs are in compliance with the period of availability requirements.

**Management's Response and Corrective Action**

This has been corrected by doing a monthly journal entry. It does delay reimbursement of issues by one month, but is accounted for within the same fiscal year and will be part of the monthly queries. This change took place effective with November 2005 issues. (30 JAN 06) July through September 2005 issues were billed on a monthly Army Service Contract invoice, received in the Army Federal receipt account and then Excess Receipts Request was submitted on February 23, 2006 for approval to expend these dollars.

**Scheduled Completion Date:** November 2005.

**Contact Person(s)**

Judi Stone, Business Manager, (802) 338-3310.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005-10**

**Department of the Military**

**National Guard Military Operations and Maintenance Projects (CFDA #12.401)**

**Requirement**

Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Effective November 26, 2003, only those procurement contracts for goods or services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000 or meet certain other specified criteria are considered covered transactions in addition to procurement contracts for goods or services equal to or in excess of \$100,000.

**Condition Found**

We noted that for all thirty contracts selected for testwork that the contractor did not submit a certification stating that they had not been suspended or debarred nor was there any evidence that the Department of the Military (the Department) had performed their own independent review of the contractor's status.

This finding is considered systemic in nature and has been reported as a material weakness.

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Department evaluate its existing policies, procedures and controls for monitoring and documenting whether or not contracted vendors have been suspended or debarred from receiving federal funding to ensure compliance with the above requirement.

**Management's Response and Corrective Action**

We agree with the above finding. The Construction Facility Maintenance Officer will verify that no prior suspended or debarred contractors will participate in any federally reimbursed contracts. This notification is now positioned within the Bid Form and the Invitation to Bid.

**Scheduled Completion Date:** Complete.

**Contact Person(s)**

Rob Gingras, Facility Maintenance Officer, (802) 338-3041.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005-11**

**Agency of Human Services**

**Special Supplemental Program for Women, Infants and Children (CFDA #10.557)**

**Requirement**

In accordance with OMB Circular A-87, costs must be reasonable and necessary for the performance and administration of federal awards. Costs must be allocable to the federal awards under the provisions of the cost principles or Cost Accounting Standards Board Standards (CASB), as applicable. A cost is allocable to a particular cost objective (e.g., a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such cost objectives in accordance with relative benefits received.

**Condition Found**

All employees are required to prepare and submit a signed timesheet as part of the payroll process. This timesheet is provided to their direct supervisor or divisional timekeeper, who reviews the timesheet for reasonableness and signs the timesheet indicating it appears proper. We noted that nine of thirty timesheets selected for testwork were not approved by the employees' direct supervisor or divisional timekeeper. The lack of required approval of employee timesheets by authorized personnel could lead to unallowable payroll costs being charged to the federal program.

This finding is considered systemic in nature and has been reported as a reportable condition.

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Department of Health (the Department) evaluate its existing policies, procedures and controls to ensure that expenditures charged to federal programs are in compliance with OMB Circular A-87. In addition, we recommend the Department review its procedures for approving and reviewing all timesheets are in accordance with state policy.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005-11, Continued**

**Management's Response and Corrective Action**

We agree that employee time sheets were sometimes signed by staff other than the employee's supervisor, frequently by the timekeeper. We have met with the department timekeepers and they have been instructed to implement the policy of accepting only the supervisor's signature. Additionally, other administrative staff in every division will be alerted to the need for supervisors' signatures.

**Scheduled Completion Date:** March 31, 2006.

**Contact Person(s)**

Patrick Burke, Business Manager, Department of Health, (802) 863-7257.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005-12**

**Agency of Human Service**

**Immunization Grants (CFDA #93.268)**

**Requirement**

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

**Monitoring For-Profit Subrecipients**

Significant portions for this program are passed through from the pass-through entity (usually the State) to for-profit subrecipients in the form of vaccine. Since OMB Circular A-133 does not apply to for-profit subrecipients, the pass-through entity is responsible for establishing requirements as necessary to ensure compliance by for-profit subrecipients.

**Condition Found**

The Department of Health within the Agency of Human Services (the Department) receives the majority of all requested vaccines directly from the Center for Disease Control (CDC), on an as needed basis. The vaccines are then distributed to a network of District Offices throughout the State of Vermont based on each District Office's request for the vaccine. The vaccines that are provided to the District Offices are then distributed to local health care providers that have enrolled in the Vaccines for Children Program (VFC).

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**Finding 2005-12, Continued**

In order to ensure that the local health care provider and District Office is properly accounting for and administering the vaccines under the program, the Department conducts an on-site monitoring review of local health care providers and District Offices. A questionnaire is completed that addresses areas such as the provider's storage of vaccine and who they are administering the vaccine to. In addition, the Department conducts a chart review to ensure that the provider is maintaining adequate records to track who the vaccines were administered to.

During our testwork over the Department's monitoring process, we noted the following:

- A. The Department requests identification of for-profit or non-profit health care providers on the Site Assessment Questionnaire. However, the Department has no mechanism in place to determine which providers are having an audit performed in accordance with OMB Circular A-133. In addition, the Department does not request, receive or review any audited financial statements or single audit reports from any provider currently receiving vaccines under Immunization Grants.
- B. As noted above, an on-site review of each provider and District Office is performed in order to ensure compliance with the administering and safeguarding of the vaccine. As part of this review, the Department will perform a variety of tests, including selecting a sample of charts to review for eligibility and documentation of the vaccine provided as well as procedures in place to safeguard the vaccine. We selected a sample of twenty-one provider on-site reviews and four district office reviews performed by the Department and noted the following:
  - i. Eighteen out of twenty-one provider site reviews and two out of four District Office reviews had received a notice that they were lacking written vaccine management protocols. The Department identifies this as an area of concern and in many instances provided the provider or District Office with a sample written management protocol. However, no additional follow-up was performed to determine whether or not the deficiency has been corrected.
  - ii. One out of twenty-one provider site visits would not allow the Department to sample any files. As a result, a chart review could not be performed as required. There was no penalty or other sanction given for the lack of cooperation on the part of the provider.
  - iii. Two out of twenty-one provider site visits did not document the names of the children selected for the chart review nor were the results of the review documented. As a result, we were unable to conclude that the chart review had been performed.
  - iv. Seventeen out of twenty-one providers did not consistently screen for VFC eligibility. In some instances, during the Department's review of the provider's charts there were instances where several of the children had been screened for eligibility but others had not. The reviewer did include in their assessment to the providers the importance of screening the children for VFC eligibility and requested that they implement procedures to effectively perform this level of screening. However, no additional follow-up was performed to determine whether or not the deficiency has been corrected.

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**Finding 2005-12, Continued**

- v. Twelve out of twenty-one providers did not consistently document the vaccine product, date administered, manufacture, lot number, name of person administering vaccine and the VIS publication date was often found to be missing. The reviewer did include in their assessment to the providers the importance of appropriately documenting the vaccine information in the childrens' chart and requested that they implement procedures to effectively perform this level of detail. However, no additional follow-up was performed to determine whether or not the deficiency has been corrected.

The Department has implemented procedures to perform on-site reviews to ensure that providers are in compliance with program requirements. However, the Department does not have a system in place to ensure that the testwork performed during the on-site review is properly documented. In addition, there are no procedures in place to ensure that the provider addresses the areas of noncompliance noted during the on-site review in a timely manner nor are there any penalties in place if the provider does not take the necessary steps to correct the matters noted during the on-site review.

This finding is considered systemic in nature and has been reported as a material weakness.

**Questioned Costs**

Not determinable.

**Recommendation**

We recommend that the Department evaluate its existing policies, procedures and controls to enable the Department to follow-up on issues of noncompliance with the provider in a timely manner in order to ensure the effectiveness of the on-site review process. We also recommend that the Department develop procedures to implement enforcement actions against those providers that fail to take the necessary corrective action to meet those compliance requirements that are applicable to this program.

**Management's Response and Corrective Action**

- A. The Department will develop procedures to correct the activities of the auditors' findings.
- B. During the audit period the Immunization Program had focused its efforts on visiting providers' sites to provide education and determine the extent of the deficiencies. Insufficient manpower existed at that time to provide a follow-up plan except for annual revisit. As a corrective action plan, the Immunization Program will write a policy/protocol to follow-up with site visits in provider offices that are deficient and that process will be implemented in 2006. The program will write a protocol that instructs the reviewer that if the VFC screening is not done, or if a vaccine emergency plan is not written or if documentation of vaccines is not complete, a plan will exist to revisit that practice to review the deficiencies.

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Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005-12, Continued**

**Scheduled Completion Date:** June 30, 2006.

**Contact Person(s)**

Patrick Burke, Business Manager, Department of Health, (802) 863-7257.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005-13**

**Agency of Human Services**

**Immunization Grants (CFDA #93.268)**

**Requirement**

Effective control and accountability must be maintained for all vaccine. Vaccine must be adequately safeguarded and used solely for authorized purposes in accordance with OMB Circular A-102 Common Rule.

**Condition Found**

The Department of Health (the Department) acts as the centralized depot for all vaccines for enrolled providers, in that those providers are also able to obtain all their required vaccines from the Department in addition to the Vaccines for Children (VFC) program. All vaccines are initially received directly by the Department. On an as needed basis, vaccines are distributed to the Department's eleven area District Offices based on order requests prepared directly by the District Office. The District Office then releases the vaccines to enrolled providers based on the number of doses requested on a Vaccine Accountability Sheet. All vaccines are identifiable based upon a lot number assigned to the vaccine by the manufacturer.

During our testwork over the Department's procedures in place to safeguard vaccines, we noted that the Department does not monitor to ensure that the District Offices store VFC and 317 funded vaccines separately from vaccines funded through State funds. As such, there are no mechanisms in place to ensure that the vaccines received by the Centers for Disease Control (CDC) as part of the Immunization Grants were properly distributed as such to the provider.

This finding is considered systemic in nature and has been reported as a material weakness.

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Department implement the necessary policies, procedures and controls to ensure that vaccines provided under this program are properly safeguarded so that they are properly used for children eligible under the program requirements.

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**Finding 2005-13, Continued**

**Management's Response and Corrective Action**

Our corrective action plan will not be to improve efforts to store vaccines separately, but rather to better document the VFC eligibility of children, as described in Finding 2005-11.

The deficiencies cited in this section are virtually the same as those in Finding 2005-11. As noted in the response to that finding, we will develop a protocol that will address this deficiency, and will include follow-up visits to non-compliant sites.

**Scheduled Completion Date:** June 30, 2006.

**Contact Person(s)**

Patrick Burke, Business Manager, Department of Health, (802) 863-7257.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005 – 14**

**Agency of Human Services**

**Immunization Grants (CFDA #93.268)**

**Requirement**

In accordance with OMB Circular A-87, costs must be reasonable and necessary for the performance and administration of federal awards. Costs must be allocable to the federal awards under the provisions of the cost principles or Cost Accounting Standards Board Standards (CASB), as applicable. A cost is allocable to a particular cost objective (e.g., a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such cost objectives in accordance with relative benefits received.

**Condition Found**

All employees are required to prepare and submit a signed timesheet as part of the payroll process. This timesheet is provided to their direct supervisor or divisional timekeeper, who reviews the timesheet to reasonableness and signs it indicating it appears proper. We noted that eleven of fifteen timesheets selected for testwork were not approved by the employees' direct supervisor. The lack of required approval of employee timesheets by authorized personnel could lead to unallowable payroll costs being charged to the federal program.

This finding is considered systemic in nature and has been reported as a reportable condition.

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Department of Health (the Department) evaluate its existing policies, procedures and controls to ensure that expenditures charged to federal programs are in compliance with OMB Circular A-87. In addition, we recommend the Department review its procedures for approving and reviewing all timesheets are in accordance with state policy.

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**Finding 2005 – 14, Continued**

**Management's Response and Corrective Action**

We agree that employee time sheets were sometimes signed by staff other than the employee's supervisor, frequently by the timekeeper. We have met with the department timekeepers and they have been instructed to implement the policy of accepting only the supervisor's signature. Additionally, other administrative staff in every division will be alerted to the need for supervisors' signatures.

**Scheduled Completion Date:** March 31, 2006.

**Contact Person(s)**

Patrick Burke, Business Manager, Department of Health, (802) 863-7257.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005 – 15**

**Agency of Human Services**

**Immunization Grants (CFDA #93.268)**

**Requirement**

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Effective November 26, 2003, only those procurement contracts for goods or services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000 or meet certain other specified criteria are considered covered transactions in addition to procurement contracts for goods or services equal to or in excess of \$100,000.

**Condition Found**

During our testwork over nonpersonal service expenditures, for five of seventeen expenditures selected for testwork, the Department of Health (the Department) did not verify that the vendor had not been suspended or debarred from receiving federal funds.

This finding is considered systemic in nature and has been reported as a material weakness.

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Department evaluate its existing policies, procedures and controls for monitoring and documenting whether or not contracted vendors have been suspended or debarred from receiving federal funding in order to ensure compliance with the above requirement.

**Management's Response and Corrective Action**

The Department agrees that it had not verified that vendors (other than contractors or grant recipients) have not been suspended or debarred from receiving federal funds. We will initiate discussions with the Finance Department to determine actions that might be taken on a state-wide basis to address this issue in a way that is both systematic and efficient. We expect to initiate those discussions prior to June 20, 2006. However, until such a state-wide process can be developed and implemented, the Health Department will undertake the following actions to document that the risk of paying federal funds to a prohibited entity is at a sufficiently low level (although greater than zero). We do not propose to perform a manual verification of every single payment because the cost would be exorbitant relative to the benefits achieved.

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**Finding 2005 – 15, Continued**

- All vendors listed in audit finding have been researched <http://www.epls.gov> and found none are currently debarred or suspended from receipt of federal funds.
- On or about July 1, 2006, and about January 1 of subsequent years, the Department will generate a list of all vendors (other than contractors or grantees) paid in the previous twelve months.
- It will compare these names with the list of entities on the Excluded Parties List of suspended or debarred entities.
- If the dollar amount actually paid to any such entities is less than 1% of the total payments to such entities, then the Department's corrective action will be to make an adjustment to the federal grant award affected by this payment and we will deduct that amount from the next quarter's claim.
- If the dollar amount is over 1% of the total of payments to such entities, then the Department will remove these costs from the federal claim, as described above, and in addition will begin to review the names of the Department's vendors quarterly rather than annually, with the expectation that this more timely vigilance will increase our ability to detect inappropriate payments more quickly. Combined with a process of alerting the relevant program and accounts payable staff about these names, we would hope to reduce the inappropriate charges down below 1%. This quarterly review would continue for as many quarters as the erroneous payments are above 1% of total.

**Scheduled Completion Date:** June 30, 2007.

**Contact Person(s)**

Patrick Burke, Department of Health, (802) 863-7257.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005 – 16**

**Agency of Human Services**

**Centers for Disease Control and Prevention – Investigations and Technical Assistance  
(CFDA #93.283)**

**Requirement**

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Effective November 26, 2003, only those procurement contracts for goods or services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000 or meet certain other specified criteria are considered covered transactions in addition to procurement contracts for goods or services equal to or in excess of \$100,000.

**Condition Found**

During our testwork over nonpersonal service expenditures, for twenty-nine of thirty-five expenditures selected for testwork, the Department of Health (the Department) did not verify that the vendor had not been suspended or debarred from receiving federal funds.

This finding is considered systemic in nature and has been reported as a material weakness.

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Department evaluate its existing policies, procedures and controls for monitoring and documenting whether or not contracted vendors have been suspended or debarred from receiving federal funding in order to ensure compliance with the above requirement.

**Management's Response and Corrective Action**

The Department agrees that it had not verified that vendors (other than contractors or grant recipients) have not been suspended or debarred from receiving federal funds. We will initiate discussions with the Finance Department to determine actions that might be taken on a state-wide basis to address this issue in a way that is both systematic and efficient. We expect to initiate those discussions prior to June 20, 2006. However, until such a state-wide process can be developed and implemented, the Health Department will undertake the following actions to document that the risk of paying federal funds to a prohibited entity is at a sufficiently low level (although greater than zero). We do not propose to perform a manual verification of every single payment because the cost would be exorbitant relative to the benefits achieved.

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Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005 – 16, Continued**

- All vendors listed in audit finding have been researched <http://www.epls.gov> and found none are currently debarred or suspended from receipt of federal funds.
- On or about July 1, 2006, and about January 1 of subsequent years, the Department will generate a list of all vendors (other than contractors or grantees) paid in the previous twelve months.
- It will compare these names with the list of entities on the Excluded Parties List of suspended or debarred entities.
- If the dollar amount actually paid to any such entities is less than 1% of the total payments to such entities, then the Department's corrective action will be to make an adjustment to the federal grant award affected by this payment and we will deduct that amount from the next quarter's claim.
- If the dollar amount is over 1% of the total of payments to such entities, then the Department will remove these costs from the federal claim, as described above, and in addition will begin to review the names of the Department's vendors quarterly rather than annually, with the expectation that this more timely vigilance will increase our ability to detect inappropriate payments more quickly. Combined with a process of alerting the relevant program and accounts payable staff about these names, we would hope to reduce the inappropriate charges down below 1%. This quarterly review would continue for as many quarters as the erroneous payments are above 1% of total.

**Scheduled Completion Date:** June 30, 2007.

**Contact Person(s)**

Patrick Burke, Department of Health, (802) 863-7257.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2005

**Finding 2005-17**

**Agency of Human Services**

**Centers for Disease Control and Prevention - Investigations and Technical Assistance  
(CFDA #93.283)**

**Requirement**

In accordance with OMB Circular A-87, costs must be reasonable and necessary for the performance and administration of federal awards. Costs must be allocable to the federal awards under the provisions of the cost principles or Cost Accounting Standards Board Standards (CASB), as applicable. A cost is allocable to a particular cost objective (e.g., a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such cost objectives in accordance with relative benefits received.

**Condition Found**

All employees are required to prepare and submit a signed timesheet as part of the payroll process. This timesheet is provided to their direct supervisor or divisional timekeeper, who reviews the timesheet for reasonableness and signs the timesheet indicating it appears proper. We noted that ten of the thirty timesheets selected for testwork were not approved by employees' direct supervisor. The lack of required approval of employee timesheets by authorized personnel could lead to unallowable payroll costs being charged to the federal program.

This finding is considered systemic in nature and has been reported as a reportable condition.

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Department of Health (the Department) evaluate its existing policies, procedures and controls to ensure that expenditures charged to federal programs are in compliance with OMB Circular A-87. In addition, we recommend the Department review its procedures for approving and reviewing all timesheets are in accordance with state policy.

**STATE OF VERMONT**  
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**Finding 2005-17, Continued**

**Management's Response and Corrective Action**

We agree that employee time sheets were sometimes signed by staff other than the employee's supervisor, frequently by the timekeeper. We have met with the department timekeepers and they have been instructed to implement the policy of accepting only the supervisor's signature. Additionally, other administrative staff in every division will be alerted to the need for supervisors' signatures.

**Scheduled Completion Date:** March 31, 2006.

**Contact Person(s)**

Patrick Burke, Business Manager, Department of Health, (802) 863-7257.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2005

**Finding 2005-18**

**Agency of Human Services**

**Centers for Disease Control and Prevention - Investigations and Technical Assistance  
(CFDA #93.283)**

**Requirement**

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

**Condition Found**

The Department of Health (the Department) grants funds to various organizations to support programs as designed by the federal grant award. All subrecipients are required to sign a grant agreement that describes what the funding is to be used for, the total amount of funds being awarded and specific program requirements that must be met. During our testwork over subrecipient monitoring, we noted the following:

- A. We were unable to determine whether or not four of thirty subrecipients selected for testwork submitted the required reports audit reports to the Department to review.

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**Finding 2005-18, Continued**

B. Various progress and year-end financial and programmatic reports are required to be submitted by the grantees. During our review of the program we noted the following:

- Twelve of thirty subrecipients either did not submit the documentation as indicated in the grant award document or submitted the documentation late. In addition, there was no evidence of review or follow-up by the Department.
- Six of thirty subrecipients did submit the documentation as requested per the grant award document. In addition, there was no formal documentation to show that the Department had reviewed or approved the reports that were received.

The lack of consistently applied internal control procedures used to ensure that subrecipient grants are properly monitored increases the risks that federal funding could be spent by the subrecipient on unapproved and unallowable activities.

This finding is considered systemic in nature and has been reported as a material weakness.

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Department evaluate its existing subrecipient monitoring policies, procedures and controls and implement the necessary measures to adequately monitor the funds to help ensure that all subrecipient expenditures are allowable and in compliance with federal regulations.

**Management's Response and Corrective Action**

The Department had developed guidelines for subrecipient monitoring using Bulletin 5. These guidelines need to be reviewed for adequacy in light of these findings and new implementation plans are needed in these areas where the guidelines are already adequate but where execution of the policy is uneven. These plans will be developed during fiscal year 2006.

**Scheduled Completion Date:** June 30, 2006.

**Contact Person(s)**

Patrick Burke, Business Manager, Department of Health, (802) 863-7257.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2005

**Finding 2005 – 19**

**Agency of Human Services**

**Temporary Assistance for Needy Families (CFDA #93.558)  
State Administrative Matching Grants for Food Stamp Program (CFDA #10.561)**

**Requirement**

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

**Conditions Found**

In order to ensure that the federal grant funds are being used in accordance with federal requirements, the Department has implemented various subrecipient monitoring activities that are performed throughout the year. During our testwork over the subrecipient monitoring process, we noted the following:

- A. The Department of Children and Families (the Department) enters into a grant agreement with subrecipients that outlines the program's CFDA number, award name, amount of the award, and the requirements imposed by federal regulations, including certifications involving suspension and debarment. For one out of nine grants selected for testwork, the grant agreement did not contain the proper award identification information.

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**Finding 2005 – 19, Continued**

- B. In addition to conducting on-site monitoring visits, the Department is required to obtain and review financial statements and OMB Circular A-133 audit reports that are issued by their grantees. We were unable to determine whether or not an OMB Circular A-133 audit report or financial statements had been submitted or reviewed by the Department for all grants selected.
- C. During our review over the grant agreements that were funded with Food Stamps only, we noted that the grant agreement requires the grantee to provide a 50% match. The Department currently does not have any mechanisms in place to track which grantees have this matching requirement and therefore does not have the ability to ensure that the grantees have met the required matching requirements as stated within the grant agreement.

We also noted that the Department has several Food Stamp grants with other State Departments that are paid for using Food Stamp funds. The Department has awarded grants that are both 100% funded with federal dollars and other grants that are funded such that 50% of the award is paid for with federal funds and the remaining 50% is paid for using state funds. During our testwork, we noted that the Department does not have a system in place to track the funding sources for these grants and as a result, does not monitor to ensure that those grants that are being paid for using state funds have not been fully charged to the federal grant.

Without proper controls and policies and procedures in place to ensure that all grants are properly monitored and the results of those visits followed up on, there is the risk that grantees are using funds for unallowable purposes and the Department would not have the mechanisms in place to identify the improper use on a timely basis.

This finding is considered systemic in nature and has been reported as a material weakness.

**Questioned Costs**

Not determinable.

**Recommendation**

We recommend that the Department evaluate its existing policies, procedures and controls over subrecipient monitoring to ensure that the procedures in place for monitoring grantees are complete to ensure compliance with the above stated requirements. These procedures should include ensuring that all required grantees certify that they have not been suspended or debarred, that both financial and programmatic reviews are implemented for all grants and that the required reports are obtained and reviewed by the Department.

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**Finding 2005 – 19, Continued**

**Management's Response and Corrective Action**

The Agency has initiated a plan to bring the entire agency into compliance with the requirements in OMB A-133 with respect to activities needed to comply with monitoring of subrecipients. The following activities were completed in State fiscal year 2005.

- A draft policy and procedures manual was created in June 2005.
- Four full-time positions have been approved and will be hired in the third quarter of State fiscal year 2006.
- One of the positions is a full-time manager who will coordinate activities across the AHS, plan and update training on subrecipient monitoring and best practices and maintain the AHS policy on subrecipient monitoring.
- Established quarterly meetings with the Office of the State Auditor to address these issues.

We expect to begin operating under these activities in State fiscal year 2006 and become fully functional in State fiscal year 2007.

**Scheduled Completion Date:** July 1, 2006.

**Contact Person(s)**

Dave Cohen, Business Manager, Department for Children and Families, (802) 241-1270.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005 – 20**

**Agency of Human Services**

**Medicaid 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 analysis whenever significant system changes occur. State agencies shall review the Automated Data Processing (ADP) system security installations involved in the administration of Health and Human Services (HHS) programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR section 95.621).

**Condition Found**

The Agency of Human Services (the Agency) uses a computer system called ACCESS as part of its eligibility determination for many federal programs, including Medicaid. During our testwork over system security reviews, we noted that the Agency has not conducted a biennial review over the ACCESS system and as a result, does not appear to be in compliance with the above stated requirement.

This finding is considered systemic in nature and has been reported as a reportable condition.

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Agency implement the policies, procedures and controls necessary to ensure that such security reviews are performed within the required time period.

**Management's Response and Corrective Action**

The Agency agrees that this review had not been done in a timely fashion. A change in personnel due to a retirement resulted in the review not having been accomplished. The Agency will institute a process similar to the SAS 70 procedure for this review.

**Scheduled Completion Date:** June 30, 2006.

**Contact Person(s)**

Dave Cohen, Business Manager, Department of Children and Families, (802) 241-1270.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005 – 21**

**Agency of Human Services**

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

**Requirement**

Federal financial participation is available for aggregate payments to hospitals that serve a disproportionate number of low-income patients with special needs. The State Plan must specifically define a disproportionate share hospital and the method of calculating the rate for these hospitals. Specific limits for the total disproportionate share hospital payments for the state and the individual hospitals are contained in the legislation.

**Condition Found**

In accordance with the State Plan, the Disproportionate Share Hospital (DSH) “funds shall be distributed to each qualifying hospital according to its proportion to the total funds available for the year. The proportions shall be calculated by dividing the cost of each hospital’s uncompensated care (bad debt and free care) by the total cost of uncompensated care of all qualifying hospitals.” During our testwork over DSH payments, we noted that the Department of Vermont Health Access (the Department) did not utilize this methodology. The Department used only 10% of the hospitals bad debt to come up with the hospital DSH Basis in State fiscal year 2005.

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Department evaluate its existing policies, procedures and controls to ensure DSH allotments are calculated in accordance to the State Plan.

**Management’s Response and Corrective Action**

The Office of Vermont Health Access (OVHA) agrees with the condition found and recommendation and has reviewed the policies to ensure the DSH payments are calculated in accordance to State plan and are approved by the OVHA Director.

**Scheduled Completion Date:** July 1, 2005.

**Contact Person(s)**

John Dick, Office of Vermont Health Access, (802) 879-5937.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2005

**Finding 2005 – 22**

**Agency of Human Services**

**Medicaid 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).

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 QIO.

**Condition Found**

During our testwork over the State's system in place for safeguarding against unnecessary utilization of care and services, we noted the following:

- A. The State OVHA Clinical Unit conducts a program of utilization, peer review, and analysis that safeguards against unnecessary or inappropriate use of Vermont Medicaid covered services. Prior to state fiscal year 2005, this function had been outsourced to a subcontractor, Delmarva Foundation for Medical Care, Inc., who provided the State with reports documenting the results of their reviews. While the State was in the process of allocating personnel, resources, and starting up the division that would take over the reviews previously contracted to Delmarva, we noted the following:
1. We were unable to obtain sufficient audit evidence that the OVHA Clinical Unit had developed a defined process and procedures manual as of June 30, 2005 outlining how to properly investigate and analyze a case; how to document their review and findings; how to extrapolate their findings to other cases to detect additional cases of fraud; or to provide the support for other departments on how to minimize a type of fraud from recurring by changing their processes and guidelines. Subsequent to our testwork, the OVHA Clinical Unit provided a process and procedures manual, however we were unable to determine when the manual had been compiled, nor was it clear that its existence had been communicated to the entire OVHA Clinical Unit as the individuals we met with during our testwork were unaware of the manual.
  2. There were no post-procedural reviews completed between July 1, 2004 to December 31, 2004 as the OVHA Clinical Unit was still creating processes and procedures to conduct these reviews.

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**Finding 2005 – 22, Continued**

3. The OVHA Clinical Unit created a schedule for selecting certain types of surgical procedures performed in a given time period for post-procedural review. However, some of the procedures selected have not been reviewed as the OVHA Clinical Unit was unable to generate a complete and accurate report to work from. For example, the OVHA Clinical Unit selected January 2004 Mental Health cases for post-procedural review, but was unable to generate a report of mental health coded cases for January 2004 until December 2005. As such, these cases have not been reviewed.
4. The OVHA Clinical Unit currently works with various manual programs to select and track post-procedural review cases. As such, it is possible for manipulation or deletion of cases, error, and duplication. The OVHA Clinical Unit is in the process of developing a post-procedural database to track post-procedural cases with the State's Information Technology Unit as well as a Decision Support System, DDS, for automated reports that would look at all claims and allow queries based on codes, providers, clients, drugs, etc. for selection of additional selection for reviews. This would be in addition to out-of-state elective inpatient admissions tracked through Global Clinical Record, (GCR). Prior authorizations are also supposed to be run through GCR in Spring 2006.
5. Concurrent reviews of hospital stays for elective and emergency psychiatric and substance abuse admissions, inpatient stays greater than fourteen days, and of repeat admissions within 30 days to the same facility are only being completed with the out-of-state reviews and only the repeat admissions are being completed for in-state hospital admissions. Concurrent reviews are required to be conducted over hospital stays for (1) elective and emergency psychiatric and substance abuse admissions; (2) inpatient stays greater than fourteen days; and (3) concurrent review of repeat admissions within 30 days to the same facility.
6. The State is required to provide clear statements of responsibility of the surveillance and utilization (SUR) functions that clarify the working relationships between the SUR and other entities such as the Medicaid Fraud Control Unit. After the first annual report, only changes must be reported. Estimates of the cost savings to the Medicaid program are to be included (42 CFR, part 456). We noted that OVHA Clinical Unit is reporting on an ad hoc basis and does not prepare an equivalent of the Annual Report previously prepared by Delmarva that provided a variety of performance indicators, including an estimate of savings from review activities.

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**Finding 2005 – 22, Continued**

- B. During our testwork over the utilization reviews conducted during the year ending June 30, 2005, we noted the following:
7. Three of fourteen referred post-procedural cases selected for testwork either lacked a completed Surveillance and Utilization Review Unit Summary of Review Form or the Form was not signed by both the reviewer and the supervisor.
  8. One of fourteen referred post-procedural cases selected for testwork did not contain the source of the referral, a completed Surveillance and Utilization Review Unit Summary of Review Form, and the excel spreadsheet used to track the cases had not been updated to reflect that the case has been closed.
  9. Four of fourteen selected cases, the OVHA Clinical Unit received a notice from CMS identifying suspected abusive and fraudulent activities from within other states. These case profiles were designated as low priority by the OVHA Clinical Unit and have not been addressed.
  10. Five of five concurrent cases were not referred to the Medicaid Fraud Control Unit. Per review of the file documentation the Surveillance and Utilization Unit Summary of Review form was not utilized to document the reviewer's review and subsequent determination and as a result we were unable to determine if this was reasonable.
  11. Ten of ten pre-procedural review cases and ten out of the ten out-of-state inpatient admissions selected for testwork contained a completed Nurse Reviewer Worksheet with the appropriate signatures. However the cases did not contain a sufficient level of documentation to support the reviewer's determination. In each case, the file contained patient records with notations that appeared to support the reviewer's determination which could have been more clearly documented on the Nurse Reviewer Worksheet.
- C. OVHA has entered into a contract with the University of Vermont and State Agricultural College (the University) to perform annual review of Medicaid Managed Care projects. The University is required to perform focused studies of patterns of care, individual case review in specific situations, measurement of the findings from the focused studies and individual case reviews against specified standards or parameters, and quality improvement. We noted that individual case reviews and measurement of the findings in the case reviews were not performed.

In addition, the contract with the University also requires the University to monitor adherence to quality standards by performing focused studies on the following: childhood immunizations; high-risk pregnancy assessment, prenatal care, and birth outcomes; chronic asthma in children; identification and treatment of depression; diabetes screening and treatment; and medication use among Community Rehabilitation Treatment (CRT) program participants. We noted that the University is only performing the focused studies on diabetes screening and treatment and medication use among CRT program participants and not on the other items as required by the terms of the contract.

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**Finding 2005 – 22, Continued**

The lack of procedures to properly document the results of utilization reviews could lead to unnecessary utilization of services and the State would not have any procedures in place for identifying the abuse of services in a timely manner.

This finding is considered systemic in nature and has been reported as a material weakness.

**Questioned Costs**

Not determinable.

**Recommendation**

We recommend that the OVHA Clinical Unit develop policies, procedures and controls to ensure the four types of reviews; pre-procedural, pre-admission, retrospective, and concurrent, are properly performed and documented to ensure compliance with the above stated requirements.

**Management's Response and Corrective Action**

The OVHA has now taken varied materials available under the federal mandates for surveillance and utilization review and control program and compiled them into a Surveillance and Utilization Review (SUR) manual to identify processes. A copy of the SUR manual is available for review upon request.

OVHA has implemented a two-year implementation to expand staff and support a series of care coordination initiatives including management of the MMIS utilization review program. Staff will be fully hired by January 2007 with training and update of processes and procedures during State fiscal year 2007. It is expected that the Care Coordination Unit will be fully operational in State fiscal year 2008.

**Scheduled Completion Date:** July 1, 2007.

**Contact Person(s)**

Ann Rugg, OVHA Deputy Director, Office of Vermont Health Access, (802) 879-5901.  
Roger Tremblay, Office of Vermont Health Access, Director of Clinical Services, (802) 879-5907.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005 – 23**

**Agency of Human Services**

**Block Grant for the Prevention and Treatment of Substance Abuse (CFDA #93.959)**

**Requirement**

In accordance with OMB Circular A-87, costs must be reasonable and necessary for the performance and administration of federal awards. Costs must be allocable to the federal awards under the provisions of the cost principles or Cost Accounting Standards Board Standards (CASB), as applicable. A cost is allocable to a particular cost objective (e.g., a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such cost objectives in accordance with relative benefits received.

**Condition Found**

All employees are required to prepare and submit a signed timesheet as part of the payroll process. This timesheet is provided to their direct supervisor or divisional timekeeper, who reviews the timesheet for reasonableness and signs the timesheet indicating it appears proper. We noted that eleven of twenty timesheets selected for testwork were not approved by the employees' direct supervisor. The lack of required approval over employee timesheets by authorized personnel could lead to unallowable payroll costs being charged to the federal program.

This finding is considered systemic in nature and has been reported as a reportable condition.

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Department of Health (the Department) evaluate its existing policies, procedures and controls to ensure that expenditures charged to federal programs are in compliance with OMB Circular A-87. In addition, we recommend the Department review its procedures for approving and reviewing all timesheets are in accordance with state policy.

**Management's Response and Corrective Action**

We agree that employee time sheets were sometimes signed by staff other than the employee's supervisor, frequently by the timekeeper. We have met with the department timekeepers and they have been instructed to implement the policy of accepting only the supervisor's signature. Additionally, other administrative staff in every division will be alerted to the need for supervisors' signatures.

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Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005 – 23, Continued**

**Scheduled Completion Date:** March 31, 2006.

**Contact Person(s)**

Patrick Burke, Business Manager, Department of Health, (802) 863-7257.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
For the Year ended June 30, 2005

**Finding 2005 – 24**

**Agency of Human Service**

**Block Grant for the Prevention and Treatment of Substance Abuse (CFDA # 93.959)**

**Requirement**

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

**Condition Found**

Funds granted under the Substance Abuse Prevention and Treatment Block Grant (SAPT) are to be used for planning, carrying out and evaluating activities to prevent and treat substance abuse and other related activities. As the State does not own or operating its own substance abuse treatment facility, it grants funds to external parties to provide specified prevention and treatment services. Each subrecipient providing treatment services is required to provide audited financial statements and when applicable, a single audit report. The Department of Health (the Department) does not have procedures in place to determine whether or not the subrecipient is a for-profit entity or a non-profit entity that would be subjected to the requirements of OMB Circular A-133 and therefore, does not monitor whether or not a provider should have submitted a single audit report. We noted that seven of twenty-five subrecipients selected for testwork did not submit an OMB Circular A-133 audit or a financial statement audit and further noted that there was no explanation as to why this had not been submitted. In addition, we noted for five of twenty-five subrecipients that did submit an OMB Circular A-133 audit or financial statement audit that the reports were not reviewed by the Department.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005 – 24, Continued**

The lack of consistently applied internal control procedures used to ensure that subrecipient grants are properly monitored increases the risks that federal funding could be spent by the subrecipient on unapproved and unallowable activities.

This finding is considered systemic in nature and has been reported as a material weakness.

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Department evaluate its existing subrecipient monitoring policies, procedures and controls and implement the necessary measures to adequately monitor the funds to help ensure that all subrecipient expenditures are allowable and in compliance with federal regulations.

**Management's Response and Corrective Action**

The Department does determine the non-profit status of subrecipients who provide treatment services. The Department has now designated a staff person to determine if there are any audits or statements that are outstanding, and to monitor whether the Department reviews such audits. The Department intends to follow-up on audit findings unrelated to the SAPT Block Grant to the extent that the finding could be reasonably assumed to have a possible impact on SAPT expenditures.

**Scheduled Completion Date:** June 30, 2006.

**Contact Person(s)**

Patrick Burke, Business Manager, Department of Health, (802) 863-7257.

**STATE OF VERMONT**  
Schedule of Current Year Findings and Questioned Costs  
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**Finding 2005 – 25**

**Agency of Human Services**

**Block Grant for the Prevention and Treatment of Substance Abuse (CFDA #93.959)**

**Requirement**

Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Effective November 26, 2003, only those procurement contracts for goods or services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000 or meet certain other specified criteria are considered covered transactions in addition to procurement contracts for goods or services equal to or in excess of \$100,000.

**Condition Found**

During our testwork over nonpersonal service expenditures, we noted that the Department of Health (the Department) did not verify that the vendor had not been suspended or debarred from receiving federal funds for fifteen of the twenty-five items selected for testwork.

This finding is considered systemic in nature and has been reported as a material weakness.

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Department evaluate its existing policies, procedures and controls for monitoring and documenting whether or not contracted vendors have been suspended or debarred from receiving federal funding to ensure compliance with the above requirements.

**Management's Response and Corrective Action**

The Department agrees that it had not verified that vendors (other than contractors or grant recipients) have not been suspended or debarred from receiving federal funds. We will initiate discussions with the Finance Department to determine actions that might be taken on a state-wide basis to address this issue in a way that is both systematic and efficient. We expect to initiate those discussions prior to June 20, 2006. However, until such a state-wide process can be developed and implemented, the Health Department will undertake the following actions to document that the risk of paying federal funds to a prohibited entity is at a sufficiently low level (although greater than zero). We do not propose to perform a manual verification of every single payment because the cost would be exorbitant relative to the benefits achieved.

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**Finding 2005 – 25, Continued**

- All vendors listed in audit finding have been researched <http://www.epls.gov> and found none are currently debarred or suspended from receipt of federal funds.
- On or about July 1, 2006, and about January 1 of subsequent years, the Department will generate a list of all vendors (other than contractors or grantees) paid in the previous twelve months.
- It will compare these names with the list of entities on the Excluded Parties List of suspended or debarred entities.
- If the dollar amount actually paid to any such entities is less than 1% of the total payments to such entities, then the Department's corrective action will be to make an adjustment to the federal grant award affected by this payment and we will deduct that amount from the next quarter's claim.
- If the dollar amount is over 1% of the total of payments to such entities, then the Department will remove these costs from the federal claim, as described above, and in addition will begin to review the names of the Department's vendors quarterly rather than annually, with the expectation that this more timely vigilance will increase our ability to detect inappropriate payments more quickly. Combined with a process of alerting the relevant program and accounts payable staff about these names, we would hope to reduce the inappropriate charges down below 1%. This quarterly review would continue for as many quarters as the erroneous payments are above 1% of total.

**Scheduled Completion Date:** June 30, 2007.

**Contact Person(s)**

Patrick Burke, Department of Health, (802) 863-7257.

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**Finding 2005 – 26**

**Department of Public Safety**

**Homeland Security Cluster:**

**State Domestic Preparedness Equipment Support Program (CFDA #97.004 and #16.007)**

**Homeland Security Grant Program (CFDA #97.067)**

**Requirement**

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

**Condition Found**

Within 60 days after the date of the grant award, States are required to obligate 80% of the grant funds for subgrants. The Department of Public Safety (the Department) grants these funds to various first responders throughout the State of Vermont. In order to ensure that the funds are being used in accordance with federal requirements, the Department has implemented various subrecipient monitoring activities that are performed throughout the year. During our testwork over the subrecipient monitoring process, we noted the following:

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**Finding 2005 – 26, Continued**

- A. For each grant, the Department enters into a grant agreement with the subrecipient which includes the program's CFDA number, award name, amount of the award, and the requirements imposed by federal regulations, including certifications involving suspension and debarment. We noted that twenty of the ninety grants selected for testwork did not have a suspension and debarment certification included as part of the grant document. Of these exceptions, eighteen of twenty grant agreements had initially included Attachment C, which contains the section where the grantee certifies that they have not been suspended or debarred, but this section had been crossed out by the Grant Manager.
  
- B. In some instances, the Department issues payments in advance to grantees prior to the grantee purchasing the equipment specified in the grant agreement. In these instances, the grantee is required to submit documentation to support that the amount advanced has been spent within 90 days. The Grant Manager is responsible for following up with the grantee for documentation that has not been received and tracking all cash advances on an internal spreadsheet. The Administration Unit within the Department also tracks cash advances on their internal monthly financial statements that are prepared for the Department. We noted that the cash advances per the Grant Manager's spreadsheet did not reconcile to the internal monthly financial statements, nor did there appear to be any procedures in place to ensure that a routine reconciliation was performed.
  
- C. In order to ensure that the grantee purchased the appropriate equipment as outlined in the grant agreement, the Department conducts on site monitoring visits to review the documentation that supports the equipment purchase and to verify the equipment's existence. The Department does not have procedures in place to ensure that the equipment purchased by the grantee is being used to support domestic preparedness as required by federal regulations guiding this program.
  
- D. In addition to conducting on-site monitoring visits, the Department is required to obtain and review financial statements and A-133 audit reports that are issued by their grantees. We were unable to determine whether or not an A-133 audit or financial statements had been submitted or reviewed by the Department for twelve of ninety grants selected for testwork.

Without proper controls and policies and procedures in place to ensure that all grants are properly monitored and the results of those visits followed up on, there is the risk that grantees are using funds for unallowable purposes and the Department would not have the mechanisms in place to identify the improper use on a timely basis.

This finding is considered systemic in nature and has been reported as a material weakness.

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**Finding 2005 – 26, Continued**

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Department evaluate its existing policies, procedures and controls over subrecipient monitoring to ensure compliance with the above stated requirements. These procedures should include ensuring that all required grantees certify that they have not been suspended or debarred, that both financial and programmatic reviews are implemented for all grants and that the required reports are obtained and reviewed by the Department.

**Management's Response and Corrective Action**

In Finding 2005-26, the auditor noted that the Vermont Homeland Security Unit did not have processes in place to verify whether grantees and vendors had been debarred or suspended from accepting federal grants. The Grants Managers from the Vermont Homeland Security Unit have instituted a policy that requires that all grantees and vendors be checked for debarment and suspension for all grants before processing the application. Additionally, Grants Managers ensure that all new grants and those grants that are amended have the Attachment C included in the paperwork that contains the Suspension and Debarment Certification for all subrecipients to validate that they are in good standing.

Program Planners are conducting educational meetings designed to educate grantees of the numerous changes in the Vermont Homeland Security Unit. The Program Planners also conduct Program (Performance) Audits to validate compliance with the grants, to educate and assist grantees on grant management, and to identify issues and address them with training. Additionally, Grants Managers conduct desk audits during the normal course of business to ensure that there is compliance with grant requirements. We have also assigned both Grant Managers to conduct processes to reconcile the differences between our records and those of the Administrative Unit. This is completed on a monthly basis by Grant Managers working directly with Accounting Office personnel.

**Schedule Completion Date:** February 20, 2006.

**Contact Person(s)**

Chris Reinfurt, Director of Vermont Homeland Security Unit,  
Department of Public Safety, (802) 241-5357.

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**Finding 2005 – 27**

**Department of Public Safety**

**Homeland Security Cluster:**

**State Domestic Preparedness Equipment Support Program (CFDA #97.004 and #16.007)**

**Homeland Security Grant Program (CFDA #97.067)**

**Requirement**

Non-federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Effective November 26, 2003, only those procurement contracts for goods or services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000 or meet certain other specified criteria are considered covered transactions in addition to procurement contracts for goods or services equal to or in excess of \$100,000.

**Condition Found**

As part of the Homeland Security Grant, the Department of Public Safety (the Department) purchases equipment for the State to be used as part of its homeland security strategy. We were unable to determine whether or not the Department had verified that the vendor had been suspended or debarred from receiving federal funds for all twenty-five purchases selected for testing.

This finding is considered systemic in nature and has been reported as a material weakness.

**Questioned Costs**

None noted.

**Recommendation**

We recommend that the Department evaluate its existing policies, procedures and controls for monitoring and documenting whether or not contracted vendors have been suspended or debarred from receiving federal funding in order to ensure compliance with the above requirements.

**Management's Response and Corrective Action**

In Finding 2005-27, which is closely related to the deficiency in Finding 2005-26, has been addressed in the corrective action plan for Finding 2005-26. As noted above, all vendors will be checked for debarment and suspension for all grants before processing the application.

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**Finding 2005 – 27, Continued**

**Schedule Completion Date:** February 20, 2006.

**Contact Person(s)**

Chris Reinfurt, Director of Vermont Homeland Security Unit,  
Department of Public Safety, (802) 241-5357.