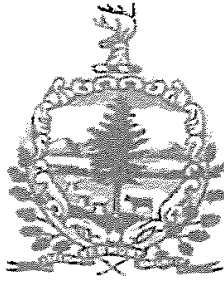


THOMAS M. SALMON, CPA
STATE AUDITOR



XIII

STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

TO: Members of the Joint Fiscal Committee

FROM: Thomas M. Salmon, CPA
Vermont State Auditor *JMS*

DATE: June 29, 2011

RE: Revised FY 2012 Budget and Preliminary Audit Schedule

In response to the requirements in Section E.130 of the Appropriations Act, we reviewed the legislative changes made during the 2011 session relative to our office and have reflected these changes in a revised budget and a preliminary audit schedule for fiscal year 2012. Please find attached an adjusted budget and an audit schedule for fiscal year 2012. In addition, per Section E.130(b), we have attached a proposed advance notification protocol for single audit fund agency billings. See below for an overview of the changes reflected in our budget and the fiscal year 2012 audit schedule.

Adjusted budget

We have adjusted our budget to reflect the elimination of the 15th staff position per section E.130(a). This position had an associated cost of \$83,000 that was budgeted in the single audit revolving fund (SARF). In addition, our contractor for the single audit, KPMG, revised their estimate of the number of programs required to be audited for fiscal year 2011 from 33 to 31, which we estimate will reduce their fee by \$80,000. The total reduction to the SARF budget due to these changes is expected to be \$163,000.

Fiscal year 2012 audit schedule

Our current audit plan for fiscal year 2012 reflects changes made during the 2011 legislative session. Specifically, in response to Sec. E.130.1, we have added a project related to Choices for Care to our work plan. In addition, we updated our understanding relative to certain legislative committees' requests for audit proposals related to job creation programs and the sexual abuse response system. Based on feedback we received, we removed the audits related to the sexual abuse response system from our fiscal year 2012 audit schedule and have provisionally scheduled two audits of job creation programs. Finally, based on updated information regarding timing of the new sex offender registry information system implementation, the follow-up audit of the sex offender registry will occur subsequent to fiscal year 2012.

We are pleased to conduct audits that are of interest to the legislature and appreciate the opportunity to provide feedback with regard to potential audits via audit strategies, as we did this

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past session relative to job creation programs and the sexual abuse response system, or through discussion with legislative committees. Through such feedback, we are able to bring to the attention of the committees the implications of the proposed legislation on our office operations.

We did not have the opportunity to communicate directly with the legislature during the 2011 session with regard to the Choices for Care project required by section E.130.1. However, we have some concerns regarding the impact this project could have on the independence of the SAO and we believe there is some uncertainty regarding funding for the project.

First, given the nature of the project – collaborating with the Department of Disabilities, Aging and Independent Living to develop performance measures – it is likely it would affect future audits of Choices for Care because our independence could be impaired by performing this nonaudit service. Auditing standards require that two overarching principles be applied when assessing the impact of performing a nonaudit service for an audited program or entity. First, “audit organizations must not provide nonaudit services that involve performing management functions or making management decisions and audit organizations must not audit their own work.” Further, audit standards delineate specific nonaudit services that impair independence, including “providing services that are intended to be used as management’s primary basis for making decisions that are significant to the subject matter under audit.” Based on these standards, it is very possible we could be precluded in the future from conducting some types of audits of Choices for Care. Given the importance of this program to the state, limitations to future audit work is of great concern.

Second, since the project is not an audit, we lack a definite funding mechanism to cover the cost of the audit staff that would be assigned to work on the project. The cost of maintaining SAO’s audit staff is budgeted in the SARF which by statute¹ is limited to accumulating and billing the costs of audits conducted in accordance with governmental auditing standards. Since we are precluded from covering the costs of nonaudit services via the SARF, we would need to rely on SAO’s general fund appropriation to cover the costs of the project. Currently, SAO’s general fund appropriation covers the salaries of those staff involved in the general operations of the office (i.e. not the audit staff) and other general operating costs such as rent and IT support. There is limited capacity to cover the costs of nonaudit projects. As a result, we will be hampered in our ability to be responsive to section E.130.1. At this time, discussions are under way with Finance & Management to address a billing mechanism for non-audit services.

If there are specific areas you would like to discuss, please feel free to call me at 828-1629.

cc:

Jim Reardon, Commissioner, Dept. of Finance & Management
Steve Klein, Chief Legislative Fiscal Officer, Joint Fiscal Office

¹ 32 VSA §163(1) and 32 VSA §168(a)

SAO Audit Calendar FY2012

Audits, audit related projects and non-audit services	FY2012			
	Q1	Q2	Q3	Q4
Burlington Tax Increment Financing District	x			
Milton Tax Increment Financing Districts	x			
Winooski Tax Increment Financing District	x	x		
Vermont Employment Growth Incentive Program			x	x
Sex Offender Registry ¹				
Medicaid Provider Enrollment	x			
Job Creation Programs ²	x	x	x	x
Federal A-133 Compliance (A-133) & Comprehensive Annual Financial Report (CAFR) audits	x	x		x
TBD Discretionary Performance Audits			x	x
Recommendation Follow-up ³		x		
Choices for Care - nonaudit service ⁴	x	x		

Notes:

¹ This is a followup to the first audit report released in FY2010. Due to the the findings of the first audit, a second audit is required and will be conducted subsequent to the implementation of a new IT system which is estimated to be 3/31/12. We estimate this audit will commence in summer 2012.

² Act 78 (2010 Session) required SAO to prepare an audit strategy for job creation programs. Two audits are provisionally scheduled.

³ Tracking audit recommendations and following up on their implementation at periodic intervals is a key step in maximizing the value of audits. Recommendation followup is performed on an annual basis.

⁴ Per Act No. 63 of the 2011 legislative session, SAO is to work with the Department of Disabilities, Aging and Independent Living to develop performance measures to evaluate the Choices for Care Medicaid waiver. SAO must report to various House and Senate committees by 1/15/2012 with recommendations on how to evaluate the success of Choices for Care.

SAO Policy for SARF Advance Notification Protocol for Department/Agency Annual Billing

Prepared by: Tanya Morehouse, SAO Chief Auditor

Date: June 29, 2011

Objective: to describe the process for notifying departments and agencies regarding an estimate for the next fiscal year audit bill.

Description

Annually, as part of the next fiscal year's budget planning process, SAO will develop an estimated bill for audit costs for each department and agency normally billed for the costs of audits. SAO will notify each business manager or other senior financial personnel of the estimate by December 1. For example, December 1, 2011, SAO will provide agencies and departments with their estimated audit billing for fiscal year 2013.

The estimate will be based upon the costs of audits budgeted for in SAO's budget for the next fiscal year and will be allocated to departments and agencies using the same approach as the allocation of actual billing.

There are two allocation methods:

- A-133 audit costs: in proportion to the federal funds expended or disbursed by departments.¹
- Comprehensive Annual Financial Statement Audit and performance audit costs: in proportion to the total funds expended or disbursed by departments.

SAO will use the total state and federal expenditures from the prior fiscal year to derive an estimated bill for each department or agency unless SAO becomes aware of a significant event or transaction, such as the American Recovery and Reinvestment Act, which would cause significant differences. In the event of an anticipated significant increase or decrease in state and federal expenditures, SAO will estimate the impact on allocation to the departments and agencies.

¹ In addition, repeat audits, where a program is subject to repeat audits as a result of audit findings, are charged directly to the responsible department. The cost charged is for the standard cost of an A-133 program audit.

REVISED BUDGET REQUEST - STATE AUDITOR'S OFFICE - FY2012

	Original Request	Revised Request	Difference
State Internal Service Fund			
Base load funding	\$2,728,755	\$2,645,755	\$83,000
One-time funding (ARRA)	<u>720,000</u>	<u>640,000</u>	<u>80,000</u>
Total	\$3,458,755	\$3,285,755	\$163,000
General Fund	\$396,853	\$396,853	\$0
Special Fund	\$53,099	\$53,099	\$0
TOTAL FUNDING	\$3,908,707	\$3,735,707	\$163,000

- Notes:** 1. The base load funding request is reduced by \$83,000 which is the cost in salary and benefits included in the original budget request for the 15th audit position
2. KPMG revised their estimate of A-133 audits required from 33 to 31 which reduced the request for one-time audits costs related to ARRA spending by \$80,000