

**Auditor of Accounts
FY2024 NARRATIVE
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Section I

Mission Statement: The mission of the Auditor’s Office is to hold State government accountable by evaluating whether taxpayer funds are being used effectively and identifying strategies to eliminate waste, fraud, and abuse.

Guiding Values: The Vermont State Auditor’s Office is dedicated to providing government entities, the Vermont Legislature, and the public with professional audit services that are:

- Useful,
- Timely,
- Accurate,
- Objective,
- Of high quality, and
- Performed in conformance with generally accepted government auditing standards.

In addition, the Office is committed to improving the professional skills of the staff, sharing knowledge with others, and maintaining a work environment that is ethical, supportive, respectful, collaborative, and productive.

Section II

Office Profile:

Statutory Responsibilities: The state auditor is a constitutional officer, elected biennially. The auditor’s principal duties and authority are defined by [32 VSA §163, 167, and 168](#). These duties include:

- [Annual audit of the state’s financial statements](#) – Annual Comprehensive Financial Report;
- Annual federal [Single Audit](#),¹

¹ The US Office of Management and Budget’s Uniform Guidance contained in [Title 2 of the Code of Federal Regulations](#) requires non-federal entities expending \$750,000 or more in federal awards in a fiscal year to obtain an audit. A single audit consists of: (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity’s

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- Discretionary governmental audits, as defined by the U.S. Government Accountability Office;
- Discretionary post-audits of all expenditures, including disbursements to a municipality, school, supervisory union, school district, or court; and
- Audits or reviews as statutorily required by the Legislature.

Vermont taxpayers expect state government to provide cost-effective services. It is the job of the SAO to determine if publicly funded programs are operating efficiently and meeting the goals established by the legislature. We do this by conducting performance audits. In the process, the SAO is always alert to the risks of waste, fraud, and abuse.

The audit of the state's financial statements (ACFR) and the federal Single Audit are conducted by CliftonLarsonAllen (CLA) [under contract to the SAO](#). That allows the SAO to focus almost exclusively on performance audits, which provide objective analysis and recommendations to: 1) program managers to help improve service delivery; 2) policy makers to better inform decisions about resource allocation; and 3) the public, which has a right to know if taxpayer funds are being used effectively.

In addition to performance auditing, we have other responsibilities. For example, we work with Finance & Management, and other state government entities to reduce findings in the federally mandated Single Audit. This improves the State's implementation of federal programs and reduces the cost of the Single Audit.²

In addition, our office will conduct reviews of certain aspects of state government. The decision to research a particular issue is made by the State Auditor. These [non-GAGAS investigations](#) will be rigorous and well-documented but need not meet generally accepted government auditing standards. In some cases, reviews may lead to or complement performance audits.

[Staffing](#): The SAO is authorized to have 16 staff positions, including the State Auditor, three appointees ([Deputy State Auditor](#), government research analyst, and private secretary), a financial manager, and 11 professional audit staff.

All professional audit staff have bachelor's degrees, six have master's degrees, and our Government Research Analyst has two master's degrees. In addition, seven of the ten audit staff members have certifications in one or more professional areas, including Certified Public Accountant, Certified Internal Auditor, and Certified Information Systems Auditor. All have considerable experience.

[Funding](#): Only 9% of funding for the SAO comes directly from the State's General Fund. Almost all the rest comes from the Single Audit Revolving Fund (SARF). Most state agencies and departments contribute to the SARF based on a formula reflecting their expenditures, revenues, and federal funding.³

compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

² Office of Management and Budget (OMB) regulations require states to re-audit programs that have material findings.

³ The formula is approved by the VT Dept. of Finance & Management and the Federal government.

For the current fiscal year (2023), the Legislature appropriated \$4.165 million to fund the SAO, including \$3.755 million from the SARF, \$357,074 from the General Fund, and \$53,145 from the Special Fund.⁴

GOAL 1: PROMOTE GOVERNMENT ACCOUNTABILITY AND IMPROVE THE EFFICIENCY AND EFFECTIVENESS OF STATE GOVERNMENT THROUGH PERFORMANCE AUDITS AND REVIEWS

Measure 1a: Number of performance audit reports issued

Purpose: Performance audits identify opportunities for improvements in program delivery as well as potential savings and cost recovery.⁵ Audits may also deal with public safety or consumer protection.

Target: Performance audits vary in scope and complexity, so the number of audits completed in a given year will also vary. In addition, the timing of audit engagements will sometimes result in audits being initiated in one year and completed in the next, so this may lead to variances from year to year. Therefore, annual targets are based on the sum of completed audits and the fractions of audits underway but not yet completed.

- CY 2023 – 6 performance audits

Strategies:

- Continue to improve risk assessments and audit planning to avoid surprises regarding data availability or other issues that may increase the time required to complete an audit.
- Continue to define audit objectives as clearly as possible to provide meaningful recommendations while avoiding scope drift.
- Work with staff to improve writing skills to reduce time devoted to editing.

Challenges: Some of the factors that can affect the number of performance audits completed each year include the complexity of the audit topics, the number of entities involved, the availability of data,⁶ and the timeliness and content of management responses to audit findings.⁷

⁴ The Special Fund is funded by the Treasurer's Office and has been a portion of SAO's appropriation since FY2000. In the years prior to that, the SAO received an appropriation of a similar amount from the Retirement Trust Fund.

⁵ Cost recovery can be based on a contractual or statutory provision allowing the state to recover money from beneficiaries for failures to meet performance obligations (i.e., contractors, grantees, or recipients of tax incentives).

⁶ For a variety of reasons, obtaining data from state entities and vendors can sometimes take more time than anticipated.

⁷ Draft audit reports are shared with auditees who are given two weeks to respond to the findings. Their responses are included in the audit report as appendices, and the SAO may comment on issues raised in the management response. It is not uncommon for management responses to be late, which delays the completion of the audit. Moreover, some management comments require additional work by audit staff to correct the report, or to defend a finding in response to a challenge by the auditee.

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Measure 1b: Average cost of performance audits

Purpose: The SAO has limited staff and modest funding. Therefore, it is imperative that we maximize the value of our available resources. As noted above, performance audits vary in their scope and complexity but the average cost per audit is a fair measure of our ability to manage our resources.

Target: CY 2023 - \$150,000⁸

Strategies: The strategies outlined above in Measure 1.a. are also relevant here.

- Try to improve risk assessments and audit planning to avoid surprises regarding data availability or other issues that may tend to increase the time required to complete an audit.
- Continue to define audit objectives as clearly as possible to provide meaningful recommendations while avoiding scope drift. Work with staff to improve writing skills to reduce time devoted to editing.

Challenges:

While the cost per audit is a useful measure, concerns about efficiency cannot compromise the integrity of the audit process. Technically, there are no shortcuts; we must adhere to generally accepted government auditing standards as issued by the Comptroller General of the United States and the U.S. Government Accountability Office (see our [Professional Standards Manual](#) on the website).

Measure 1c: Value of identified savings or cost recovery

Purpose: In some cases, a performance audit will identify actual or potential savings or opportunities for cost recovery from contractors, grantees, or beneficiaries of incentive programs.⁹ Although not the only measure of the value of performance audits, savings are sometimes quantifiable. However, it is impossible to forecast such savings because we don't always know in advance what audits will be performed and, in any case, savings cannot be predicted before conducting the audits. Therefore, we will report savings and cost recoveries in the performance report but will not set targets.

Not all audits are about cost-effectiveness. Some relate to service delivery, public safety or consumer protection and, therefore, do not result in estimates of quantifiable savings. For example, our 2019 audit of the Child Protection Registry (CPR) found that 20% of all Supervisory Unions made no CPR checks and another 13% were not complete. By failing to check the CPR, an organization could unknowingly license or employ individuals who have abused or neglected children in the past. Fortunately, the Agency of Education has already begun expanding its assistance to schools, so we expect improvements very soon.

⁸ The Auditor's Office is now required to conduct audits of TIF towns. As a rule, these audits are not as labor intensive as others, so the average cost of all audits has declined somewhat.

⁹ Our audit of ten BGS capital projects found that costs for nine completed projects were \$24.6 million above the total estimated costs of \$92 million. The median cost overrun for these projects was 31 percent, with a range of 11 to 73 percent.

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Target: NA

Strategy: In choosing audit topics, we will focus on those programs and entities that have a high operational or financial risk to the state, have had performance problems in the past, or have never been subject to a performance audit. We may also focus on public safety and consumer protection.

Challenges: None

Measure 1d: Percentage of audit recommendations implemented within one year and three years

Purpose: The SAO makes recommendations designed to improve the operations of state government. For our work to produce benefits, state entities and/or the General Assembly must implement these recommendations. The greater the number of recommendations implemented, the more benefit will be realized from our audit work. We have no power to compel state entities to implement our recommendations, but a measure of the quality and persuasiveness of our audits is the extent to which our recommendations are acted upon. Experience has shown that it takes time for some recommendations to be implemented. At present, we track recommendations one and three years after audit reports are issued.

Targets:

Percent of recommendations implemented within one year – 50%

Percent of recommendations implemented within three years – 75%

Strategy: Annually review auditee corrective actions in response to audit recommendations. Recommendation follow-up will be performed for audit reports issued one and three years prior to the calendar year (e.g., the follow up in the 2022 performance report below is for audits issued in calendar years 2019 and 2021).

Challenges: Absent any authority to compel implementation, we have no direct control over this outcome measure.

Measure 1e: Number, potential savings, and outcomes from non-GAGAS investigations

Purpose: As noted above, the SAO conducts non-GAGAS investigations in addition to performance audits. These investigations are intended to achieve the same goals as performance audits; namely, to identify opportunities to improve the value and effectiveness of state government.

Targets: As with performance audits, we cannot predict savings, but we will report potential savings or cost recoveries identified through non-GAGAS investigations.

Targets:

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Number of non-GAGAS investigations

CY 2023 – 3

Value of identified savings or cost-recovery – NA

Outcomes – NA

Strategies: The Government Research Analyst reports directly to the State Auditor and works closely with the Deputy Auditor as well. In addition, both audit and non-audit staff will provide occasional assistance in the execution of non-GAGAS investigations.

Challenges: None.

GOAL 2: COMPLETE MANDATED FINANCIAL AND COMPLIANCE AUDITS ON SCHEDULE

The financial audit must be completed by December 31st (ACFR¹⁰) and the federal compliance audit by March 31st at the latest (Single Audit¹¹). The Commissioner of the Department of Finance & Management prepares the financial statements, which are audited by CLA (under contract to the SAO), and CLA also conducts the Single Audit.

Measure 2a: Complete the ACFR and Single Audit by the prescribed deadlines

Purpose: Although the SAO no longer conducts the ACFR and Single Audits, we work with CLA to help ensure that these audits are completed on time.

Targets

FY 2022 Single Audit and FY 2023 ACFR – Both audits completed on time

Strategy: Actively monitor the process through status meetings with staff from CLA, the Department of Finance & Management, and other involved parties. We troubleshoot issues as they arise.

Challenges: Meeting the targets is dependent on CLA, and the state's financial management team.

Measure 2b: Number of repeat Single Audit findings

Purpose: Under a contract with the SAO, CLA annually audits selected state entities to determine if they comply with federal requirements in a variety of control areas, such as program eligibility and cash management. Given the wide scope of this audit and the numerous requirements that are checked for

¹⁰ <https://legislature.vermont.gov/statutes/section/32/003/00182>

¹¹ [2 CFR, Part 200, Subpart F, §200.512\(a\)](#)

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compliance, it is not unreasonable for the state to have Single Audit findings. However, state entities should work hard to minimize the number of repeat findings to comply with federal requirements and, in some cases, reduce future audit costs.¹² The SAO cannot compel state entities to implement the Single Audit recommendations, but we report the number of repeat findings and track changes over time. In addition, we will continue to work with the parties to emphasize the importance of avoiding repeat findings. Although history provides some guidance as to the frequency of repeat audit findings, we will not set targets as they are beyond our control.

Targets: NA

Strategy: Work with CLA to provide guidance to state entities on how to fix repeat audit findings.

Challenges: There is no penalty for not implementing Single Audit recommendations. In some cases, it is possible that the cost of implementing the recommendations could exceed the cost of the resulting re-audits, which is a disincentive to curing the problem.

Measure 2c: Number of Single Audit re-audits

Purpose: A significant driver of the cost of the Single Audit is the number of programs that must be audited. According to rules established by the federal Office of Management and Budget, some programs must be audited every year, such as Medicaid, while others are audited once every three years if they meet certain dollar thresholds.

Auditors issue adverse or qualified opinions in the Federal Single Audit when the State does not comply with federal programs in a way that can have a direct and material effect on those programs or undermines compliance with the requirements of those programs. When such opinions are issued, the non-compliant programs must be re-audited the next year, which adds to the State's auditing expenses. The SAO has no direct means of influencing this measure, so we will track and report the number of re-audits but will not set targets.

Targets: NA

Strategy: Provide guidance to state organizations on how to minimize future re-audits and retain the authority to charge the entity the full cost of the re-audit if the failure to cure is avoidable.

Challenges: See Measure 2b Challenges above.

GOAL 3: NON-AUDIT SERVICES

¹² OMB rules mandate re-audits for most repeat findings.

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Measure 3a: Number, type and outcomes of inquiries from legislators, municipalities, whistleblowers, and others

Purpose: The SAO regularly receives inquiries from various parties as well as comments, allegations and audit suggestions from whistleblowers. We respond to all such communications and provide information, technical assistance, and referrals as needed. The SAO cannot predict the number of such communications, but we can track them by type and outcome.

Targets: NA

Strategy: Respond promptly to all inquiries and requests for information.

Challenges: Time-consuming but a valued service to Vermonters.

Measure 3b: Satisfaction levels of those attending trainings supported by the SAO

Purpose: The SAO sponsors numerous trainings annually for financial professionals from the State, municipalities, schools, counties, and affiliated organizations. To gauge the usefulness of the trainings, we ask participants to evaluate the effectiveness of the presenters and the presentations.

Targets:

2023 – NA (see below)

Strategy: Seek input from state and local government officials and associations on training needs that would improve financial competence across the state. Obtain evaluations from training participants.

Challenges: A range of officials and professionals from different entities attend the trainings. In addition to recruiting quality presenters and panelists, our continuing challenge is to plan sessions that will meet the needs of a diverse audience. Although the SAO assists CLA in planning and organizing the trainings, we do not conduct them, so we don't set targets for satisfaction.