



STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

To: House Committee on Appropriations
From: Andrew Stein, Deputy State Auditor
CC: Doug Hoffer, Vermont State Auditor
Date: February 10, 2022
Subject: Vermont State Auditor's Office FY22 Budget Submission

After years of inflation-adjusted declines in spending at the State Auditor's Office (SAO), the SAO has no option but to present a budget that features increases. Those increases are largely unavoidable and driven by:

1. Increased audits of federal awards required by federal law that can be paid for with federal funds;
2. A 27th pay period that the SAO's internal service fund, the Single Audit Revolving Fund (SARF), must cover because it does not receive Pay Act funding for this expense;
3. Increased employee compensation primarily due to health insurance changes, retirement contributions, filling vacancies, and recruiting top talent; and
4. Increased BGS Fee-For-Space charges.

Without funding the SAO's 16th position – kept vacant for FY21 – the SAO's FY22 budget features a \$463,396 (+12.9%) annual increase. However, the estimated impact on departments and agencies billed through the SARF is anticipated to be much more modest (explained on page 3), as some expenses will be paid for by municipalities and the Coronavirus Relief Fund (CRF).

SAO FY22 Budget vs FY21 Budget				
FY Budget	GF	Special	SARF	Total
FY21	314,921	53,145	3,214,114	3,582,180
FY22	344,615	53,145	3,647,816	4,045,576
% Change	9.4%	0.0%	13.5%	12.9%
\$ Change	29,694	-	433,702	463,396

SARF

The SARF accounts for most of the SAO's budget and its annual increase. Of the FY22 increase to the SARF, 78% is largely due to Federal Single Audit requirements, a 27th pay period, and the increased fee for renting BGS space. If we exclude those expenses, the proposed SARF budget would feature an increase of 2.6%. That remaining increase is caused by filling vacancies with exceptionally qualified auditors. Additionally, that 2.6% is an increase from an FY21 budget that was reduced by 3% for the budget restatement during the pandemic. Vacancies that have now been filled helped the SAO meet the 3% budget reduction target in FY21.

Federal Single Audit

The FY22 SARF budget features a \$251,535 increase in financial and compliance auditing costs driven almost exclusively by Federal Single Audit Requirements. FY22 has long been expected to be a more expensive year for Single Audit expenses due to the audit cycle of Vermont’s federal programs. Many of these programs are audited once every three years, and this is a high year in that cycle. The large infusion of federal dollars for COVID-related expenses is anticipated to add to the number and scope of the programs audited. Of this Single Audit increase, we anticipate roughly \$50,000 will be eligible for CRF funding in FY22.¹ We understand Finance and Management is waiting on federal action before proposing how to move remaining FY21 CRF appropriations forward to FY22.

27th Pay Period

The 27th pay period in FY22 is anticipated to increase the SARF by \$70,909. The SARF does not receive assistance from the Pay Act, and so the SARF budget must include the cost of this additional pay period.

Cost of Compensation/Filling Vacancies

At the outset of FY21, the SAO had vacancies in five of 16 positions. The SAO has since filled four of those vacancies, and three of those positions are funded by the SARF.

The SAO’s FY22 SARF budget features an increase of \$109,128 for salaries and benefits. The increase in compensation represents the cost of filling vacancies and filling them with very qualified individuals who cost more than lesser experienced auditors. We expect these new hires to improve the quality and productivity of the office. The FY21 budget featured savings from these vacancies, which lowers the baseline for an FY21 to FY22 comparison, as FY22 does not include these vacancy savings.

Summary of Annual SARF Increases

The below table summarizes the main increases in the SARF budget from FY21 to FY22. The bottom-line number is different from the total increase due to marginal ups and downs of other line items.

Annual SARF Ups in FY22	
Description	Amount
Increased Financial & Compliance Audit Costs	\$251,535
27th Pay Period	\$70,909
BGS Fee-For-Service Increase	\$16,447
Subtotal of Ups Beyond SAO Control	\$338,891
Personnel Increases (Mainly Filling Vacancies)	\$109,128
Total	\$448,019

¹ The SAO received a \$100,000 CRF appropriation in Act 120 of 2020 to pay for CRF-eligible expenses associated with the Single Audit. We anticipate that the FY21 audit of this “program” will cost roughly \$50,000 and the FY22 audit will cost another \$50,000. So long as this FY21 appropriation can be extended to FY22, it should be sufficient to pay for the cost of these two audits.

Tax Increment Financing (TIF)

After consulting with Finance and Management, the SAO proposes to resurrect the statutory amendment in the Governor’s initial FY21 budget proposal that will allow the SAO to bill municipalities for the cost of TIF audits from the SARF. The SAO withdrew this proposal for the restated FY21 budget because it complicated our budget proposal when the State was struggling with the initial challenge of the pandemic.

The SAO already has the authority to bill for TIF audits, but it cannot do so from the SARF. This change will streamline and improve the transparency of accounting and budgeting in the SARF.

For FY22, we estimate that \$120,000 in TIF audit revenue from municipalities will be available to offset SARF costs. While the SAO still needs the authority to spend these dollars from the SARF, these expenses will not pose a cost to the State and will not be billed to departments and agencies (see the table below).

SARF Estimated Impact on Departments and Agencies is Limited

When comparing FY21 and FY22 estimated bills for the SARF, the total increase is roughly 3%. The reason the estimated impact on departments and agencies is lesser than the appropriation request is that in this year’s estimates we accounted for reductions to departments due to municipalities paying TIF bills, leveraging CRF to pay for Single Audit costs associated with the CRF, and backing out additional costs to re-audit non-compliant programs for which non-compliant departments would be directly billed. The below table provides an overview of this math.

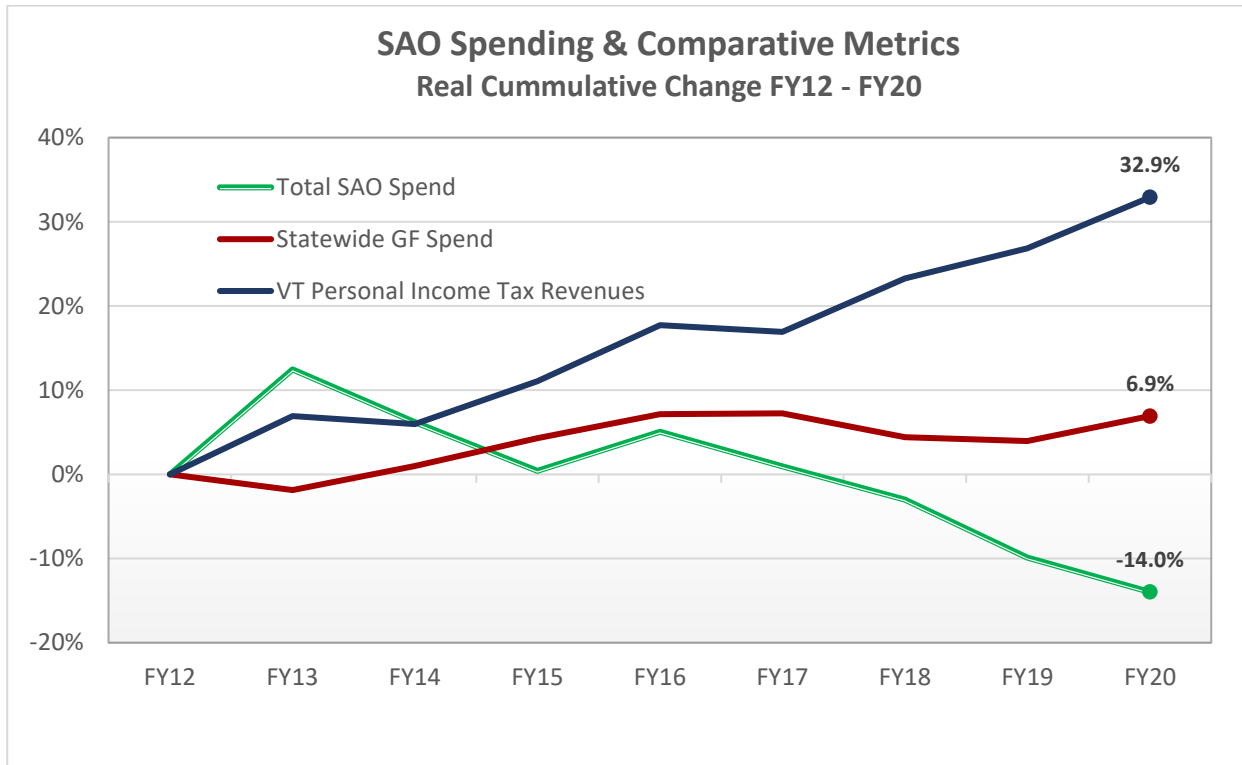
Estimated Impact on Departments & Agencies	
Description	Amount
FY22 SARF	3,647,816
- Estimated TIF Audit Bills	(120,000)
- Estimated CRF Funds for Single Audit	(50,000)
- Potential Re-Audits Billed to Non-Compliant Departments	(50,000)
= Total Estimated Impact on Departments and Agencies	3,427,816

General Fund (GF)

The \$29,694 increase (+9.4%) in the SAO’s GF request is driven by two main expenses that the SAO has no control over: 1) an increase in health insurance coverage due to choices by employees that the State is obligated to cover; and 2) retirement obligations associated with Defined Benefit instead of Defined Contribution plans. The increase in fee-for-space charges also impacts the General Fund, but to a lesser degree than the SARF.

Budget in Context

Between FY12 and FY20, SAO spending when adjusted for inflation declined 14%. The below graph compares SAO spending, statewide GF spending, and Vermont Personal Income Tax revenues.



Data Sources: VISION Accrual Expenditure Queries, Consensus Revenue Forecast tables, and BEA Inflation Index for State and Local Governments.

The decline in SAO spending over this period is the result of a range of positive developments at the SAO and across state government, which include improved compliance, reduced expenses, and contracts that provide taxpayers a greater value for services. But, after years of spending decreases, the SAO in FY20 and FY21 likely reached a trough in its spending trends.

The SAO's 16th Position

To meet the pared-back budget parameters for FY21, the SAO left a Staff Auditor II position vacant in the current fiscal year. The Legislature authorized this position just before the pandemic to help the SAO manage the added workload of the legislatively mandated TIF audits. There is a significant opportunity cost associated with the TIF audits, and the Auditor is anxious to fill this vacancy in FY22.

This position is vacant in the governor's budget and is not included in the above numbers. Since the SAO's budget features an increase this year for reasons that are largely unavoidable, we are open to filling this position halfway through FY22 to limit the budget impact. The SAO is therefore requesting an additional \$75,000 to hire an auditor to fill the SAO's remaining vacancy.

Appendix I: FY2022 Governor's Recommended Budget Documents
Office of the Vermont State Auditor

State of Vermont
FY2022 Governor's Recommended Budget Rollup Report

Organization: 1250010000 - Auditor of accounts

Budget Object Group: 1. PERSONAL SERVICES

Budget Object Rollup Name	FY2020 Actuals	FY2021 Original As Passed Budget	FY2021 Governor's BAA Recommended Budget	FY2022 Governor's Recommended Budget	Difference Between FY2022 Governor's Recommend and FY2021 As Passed	Percent Change FY2022 Governor's Recommend and FY2021 As Passed
Salaries and Wages	1,299,022	1,411,405	1,411,405	1,457,911	46,506	3.3%
Fringe Benefits	529,578	598,132	598,132	684,247	86,115	14.4%
Contracted and 3rd Party Service	1,322,924	1,425,748	1,425,748	1,677,283	251,535	17.6%
PerDiem and Other Personal Services	56	14,840	14,840	70,909	56,069	377.8%
Budget Object Group Total: 1. PERSONAL SERVICES	3,151,580	3,450,125	3,450,125	3,890,350	440,225	12.8%

Budget Object Group: 2. OPERATING

Budget Object Rollup Name	FY2020 Actuals	FY2021 Original As Passed Budget	FY2021 Governor's BAA Recommended Budget	FY2022 Governor's Recommended Budget	Difference Between FY2022 Governor's Recommend and FY2021 As Passed	Percent Change FY2022 Governor's Recommend and FY2021 As Passed
Equipment	14,949	5,900	5,900	8,700	2,800	47.5%
IT/Telecom Services and Equipment	52,026	52,036	52,036	52,328	292	0.6%
Travel	2,433	0	0	0	0	0.0%
Supplies	2,116	5,050	5,050	5,150	100	2.0%
Other Purchased Services	18,305	23,827	23,827	25,046	1,219	5.1%
Other Operating Expenses	133	0	0	200	200	100.0%
Rental Other	289	250	250	250	0	0.0%
Rental Property	53,887	43,642	43,642	62,512	18,870	43.2%
Property and Maintenance	13,993	1,350	1,350	1,040	(310)	-23.0%
Budget Object Group Total: 2. OPERATING	158,130	132,055	132,055	155,226	23,171	17.5%
Total Expenses	3,309,710	3,582,180	3,582,180	4,045,576	463,396	12.9%

Fund Name	FY2020 Actuals	FY2021 Original As Passed Budget	FY2021 Governor's BAA Recommended Budget	FY2022 Governor's Recommended Budget	Difference Between FY2022 Governor's Recommend and FY2021 As Passed	Percent Change FY2022 Governor's Recommend and FY2021 As Passed
General Funds	305,216	314,921	314,921	344,615	29,694	9.4%
Special Fund	166,960	53,145	53,145	53,145	0	0.0%
ISF Funds	2,837,534	3,214,114	3,214,114	3,647,816	433,702	13.5%
Funds Total	3,309,710	3,582,180	3,582,180	4,045,576	463,396	12.9%

Position Count				16		
FTE Total				16		

State of Vermont
FY2022 Governor's Recommended Budget - Position Summary Report

1250010000-Auditor of accounts

Position Number	Classification	FTE	Count	Gross Salary	Benefits Total	Statutory Total	Total
090004	089080 - Financial Manager I	1	1	73,216	25,353	5,602	104,171
090005	025600 - Dir IT & Performance Audits	1	1	148,954	41,713	10,697	201,364
090007	035200 - Audit Manager	1	1	113,308	48,530	8,668	170,506
090012	029400 - Staff Auditor II	1	1	60,507	30,752	4,628	95,887
090014	003200 - Chief Auditor	1	1	154,622	57,902	10,779	223,303
090015	029400 - Staff Auditor II	1	1	74,942	25,562	5,733	106,237
090018	063500 - Senior Auditor	1	1	82,862	18,114	6,338	107,314
090028	063500 - Senior Auditor	1	1	102,284	46,125	7,825	156,234
090030	063500 - Senior Auditor	1	1	99,450	45,506	7,608	152,564
090032	063500 - Senior Auditor	1	1	99,450	30,910	7,608	137,968
090033	063500 - Senior Auditor	1	1	96,876	30,348	7,411	134,635
090034	063500 - Senior Auditor	1	1	102,284	46,125	7,825	156,234
097001	90030P - Auditor Of Accounts	1	1	116,730	23,158	8,930	148,818
097002	94470D - Deputy Auditor Of Accounts	1	1	98,717	29,348	7,552	135,617
097003	95250E - Executive Assistant	1	1	67,018	32,328	5,127	104,473
097004	91590X - Private Secretary	1	1	62,546	31,342	4,784	98,672
Total		16	16	1,553,766	563,116	117,115	2,233,997

Fund Code	Fund Name	FTE	Count	Gross Salary	Benefits Total	Statutory Total	Total
10000	General Fund	11	2.57	204,000	74,909	15,606	294,515
21520	Treas Retirement Admin Cost		0.43	42,448	12,620	3,248	58,316
59500	Single Audit Revolving Fund	5	13	1,307,318	475,587	98,261	1,881,166
Total		16	16	1,553,766	563,116	117,115	2,233,997

Note: Numbers may not sum to total due to rounding.

State of Vermont
FY2022 Governor's Recommended Budget Detail Report

Organization: 1250010000 - Auditor of accounts

		FY2021 Original	As Passed	FY2021 Governor's BAA	FY2022 Governor's	Difference Between FY2022	Percent Change FY2022
		FY2020 Actuals	Budget	Recommended Budget	Recommended Budget	Governor's Recommend and FY2021 As Passed	Governor's Recommend and FY2021 As Passed
Salaries and Wages							
Description	Code						
Classified Employees	500000	1,298,578	896,545	896,545	1,008,737	112,192	12.5%
Exempt	500010	0	343,431	343,431	345,011	1,580	0.5%
Overtime	500060	444	0	0	0	0	0.0%
Market Factor - Classified	500899	0	171,967	171,967	200,018	28,051	16.3%
Vacancy Turnover Savings	508000	0	(538)	(538)	(95,855)	(95,317)	17,716.9%
Total: Salaries and Wages		1,299,022	1,411,405	1,411,405	1,457,911	46,506	3.3%
Fringe Benefits							
Description	Code						
FICA - Classified Employees	501000	94,210	79,401	79,401	90,722	11,321	14.3%
FICA - Exempt	501010	0	26,270	26,270	26,393	123	0.5%
Health Ins - Classified Empl	501500	175,440	164,721	164,721	173,061	8,340	5.1%
Health Ins - Exempt	501510	0	33,362	33,362	58,384	25,022	75.0%
Retirement - Classified Empl	502000	241,102	224,388	224,388	258,672	34,284	15.3%
Retirement - Exempt	502010	0	38,808	38,808	52,071	13,263	34.2%
Dental - Classified Employees	502500	9,121	8,360	8,360	9,196	836	10.0%
Dental - Exempt	502510	0	3,344	3,344	3,344	0	0.0%
Life Ins - Classified Empl	503000	5,210	4,511	4,511	5,103	592	13.1%
Life Ins - Exempt	503010	0	1,449	1,449	1,456	7	0.5%
LTD - Classified Employees	503500	1,143	524	524	524	0	0.0%
LTD - Exempt	503510	0	789	789	793	4	0.5%
EAP - Classified Empl	504000	441	352	352	384	32	9.1%
EAP - Exempt	504010	0	128	128	128	0	0.0%
Employee Tuition Costs	504530	0	0	0	0	0	0.0%
Employee Moving Expense	504540	1,919	10,000	10,000	2,000	(8,000)	-80.0%
Misc Employee Benefits	504590	50	0	0	0	0	0.0%
Workers Comp - Ins Premium	505200	942	1,725	1,725	2,016	291	16.9%
Total: Fringe Benefits		529,578	598,132	598,132	684,247	86,115	14.4%
Contracted and 3rd Party Service							
Description	Code						
Contr & 3Rd Party - Financial	507100	1,251,705	1,348,705	1,348,705	1,600,240	251,535	18.7%
Contr&3Rd Pty-Educ & Training	507350	10,716	8,760	8,760	8,760	0	0.0%
Contr&3Rd Pty - Info Tech	507550	32,603	0	0	0	0	0.0%
Other Contr and 3Rd Pty Serv	507600	27,900	68,283	68,283	68,283	0	0.0%
Total: Contracted and 3rd Party Service		1,322,924	1,425,748	1,425,748	1,677,283	251,535	17.6%
PerDiem and Other Personal Services							
Description	Code						
Other Pers Serv	506200	0	14,840	14,840	70,909	56,069	377.8%
Transcripts	506220	56	0	0	0	0	0.0%
Total: PerDiem and Other Personal Services		56	14,840	14,840	70,909	56,069	377.8%
Total: 1. PERSONAL SERVICES		3,151,580	3,450,125	3,450,125	3,890,350	440,225	12.8%

		FY2020 Actuals	FY2021 Original As Passed Budget	FY2021 Governor's BAA Recommended Budget	FY2022 Governor's Recommended Budget	Difference Between FY2022 Governor's Recommend and FY2021 As Passed	Percent Change FY2022 Governor's Recommend and FY2021 As Passed
Equipment							
Description	Code						
Hardware - Desktop & Laptop Pc	522216	12,398	1,700	1,700	4,500	2,800	164.7%
Hw - Printers,Copiers,Scanners	522217	180	3,000	3,000	3,000	0	0.0%
Furniture & Fixtures	522700	2,371	1,200	1,200	1,200	0	0.0%
Total: Equipment		14,949	5,900	5,900	8,700	2,800	47.5%
IT/Telecom Services and Equipment							
Description	Code						
ADS VOIP Expense	516605	4,559	4,200	4,200	4,200	0	0.0%
Toll-Free Telephone	516611	137	0	0	0	0	0.0%
Telecom-Conf Calling Services	516658	41	0	0	0	0	0.0%
Telecom-Wireless Phone Service	516659	0	0	0	0	0	0.0%
ADS Enterp App Supp SOV Emp Exp	516660	14,501	13,921	13,921	15,500	1,579	11.3%
ADS App Support SOV Emp Exp	516661	0	0	0	0	0	0.0%
It Intsvccost-Vision/Isdassess	516671	13,461	13,704	13,704	12,123	(1,581)	-11.5%
ADS Centrex Exp.	516672	57	156	156	216	60	38.5%
ADS Allocation Exp.	516685	18,689	19,354	19,354	19,588	234	1.2%
Hw - Computer Peripherals	522201	580	201	201	201	0	0.0%
Software - Other	522220	0	500	500	500	0	0.0%
Total: IT/Telecom Services and Equipment		52,026	52,036	52,036	52,328	292	0.6%
Other Operating Expenses							
Description	Code						
Single Audit Allocation	523620	133	0	0	200	200	100.0%
Total: Other Operating Expenses		133	0	0	200	200	100.0%

Other Purchased Services		FY2020 Actuals	FY2021 Original As Passed Budget	FY2021 Governor's BAA Recommended Budget	FY2022 Governor's Recommended Budget	Difference Between FY2022 Governor's Recommend and FY2021 As Passed	Percent Change FY2022 Governor's Recommend and FY2021 As Passed
Description	Code						
Insurance Other Than Empl Bene	516000	137	487	487	276	(211)	-43.3%
Insurance - General Liability	516010	2,608	5,439	5,439	6,151	712	13.1%
Dues	516500	5,295	5,000	5,000	5,000	0	0.0%
Licenses	516550	0	2,500	2,500	2,500	0	0.0%
Telecom-Telephone Services	516652	195	0	0	0	0	0.0%
Advertising - Job Vacancies	516820	0	0	0	0	0	0.0%
Printing and Binding	517000	39	0	0	250	250	100.0%
Registration For Meetings&Conf	517100	0	0	0	0	0	0.0%
Postage	517200	48	50	50	201	151	302.0%
Other Purchased Services	519000	386	0	0	0	0	0.0%
Human Resources Services	519006	9,598	9,851	9,851	10,168	317	3.2%
Moving State Agencies	519040	0	500	500	500	0	0.0%
Total: Other Purchased Services		18,305	23,827	23,827	25,046	1,219	5.1%

Property and Maintenance		FY2020 Actuals	FY2021 Original As Passed Budget	FY2021 Governor's BAA Recommended Budget	FY2022 Governor's Recommended Budget	Difference Between FY2022 Governor's Recommend and FY2021 As Passed	Percent Change FY2022 Governor's Recommend and FY2021 As Passed
Description	Code						
Disposal	510200	210	550	550	240	(310)	-56.4%
Repair & Maint - Buildings	512000	13,802	0	0	0	0	0.0%
Repair & Maint - Office Tech	513010	(19)	800	800	800	0	0.0%
Total: Property and Maintenance		13,993	1,350	1,350	1,040	(310)	-23.0%

Rental Other		FY2020 Actuals	FY2021 Original As Passed Budget	FY2021 Governor's BAA Recommended Budget	FY2022 Governor's Recommended Budget	Difference Between FY2022 Governor's Recommend and FY2021 As Passed	Percent Change FY2022 Governor's Recommend and FY2021 As Passed
Description	Code						
Rental of Equipment & Vehicles	514500	40	0	0	0	0	0.0%
Rental - Auto	514550	249	250	250	250	0	0.0%
Total: Rental Other		289	250	250	250	0	0.0%

Rental Property		FY2020 Actuals	FY2021 Original As Passed Budget	FY2021 Governor's BAA Recommended Budget	FY2022 Governor's Recommended Budget	Difference Between FY2022 Governor's Recommend and FY2021 As Passed	Percent Change FY2022 Governor's Recommend and FY2021 As Passed
Description	Code						
Fee-For-Space Charge	515010	53,887	43,642	43,642	62,512	18,870	43.2%
Total: Rental Property		53,887	43,642	43,642	62,512	18,870	43.2%

Supplies		FY2020 Actuals	FY2021 Original As Passed Budget	FY2021 Governor's BAA Recommended Budget	FY2022 Governor's Recommended Budget	Difference Between FY2022 Governor's Recommend and FY2021 As Passed	Percent Change FY2022 Governor's Recommend and FY2021 As Passed
Description	Code						
Office Supplies	520000	1,041	3,500	3,500	3,500	0	0.0%
Educational Supplies	520540	31	0	0	0	0	0.0%
Recognition/Awards	520600	0	0	0	0	0	0.0%
Water	520712	296	300	300	400	100	33.3%
Books&Periodicals-Library/Educ	521500	0	250	250	250	0	0.0%
Subscriptions	521510	748	1,000	1,000	1,000	0	0.0%
Road Supplies and Materials	521600	0	0	0	0	0	0.0%
Total: Supplies		2,116	5,050	5,050	5,150	100	2.0%

Travel		FY2020 Actuals	FY2021 Original As Passed Budget	FY2021 Governor's BAA Recommended Budget	FY2022 Governor's Recommended Budget	Difference Between FY2022 Governor's Recommend and FY2021 As Passed	Percent Change FY2022 Governor's Recommend and FY2021 As Passed
Description	Code						
Travel-Inst-Auto Mileage-Emp	518000	20	0	0	0	0	0.0%
Travel-Inst-Meals-Emp	518020	0	0	0	0	0	0.0%
Travel-Inst-Lodging-Emp	518030	0	0	0	0	0	0.0%
Travel-Outst-Auto Mileage-Emp	518500	0	0	0	0	0	0.0%
Travel-Outst-Other Trans-Emp	518510	792	0	0	0	0	0.0%
Travel-Outst-Meals-Emp	518520	0	0	0	0	0	0.0%
Travel-Outst-Lodging-Emp	518530	0	0	0	0	0	0.0%
Travel-Outst-Incidentals-Emp	518540	0	0	0	0	0	0.0%
Trvl-Outst-Other Trans-Nonemp	518710	940	0	0	0	0	0.0%
Travel-Outst-Lodging-Nonemp	518730	681	0	0	0	0	0.0%
Total: Travel		2,433	0	0	0	0	0.0%
Total: 2. OPERATING		158,130	132,055	132,055	155,226	23,171	17.5%
Total Expenses:		3,309,710	3,582,180	3,582,180	4,045,576	463,396	12.9%
Fund Name	Fund Code	FY2020 Actuals	FY2021 Original As Passed Budget	FY2021 Governor's BAA Recommended Budget	FY2022 Governor's Recommended Budget	Difference Between FY2022 Governor's Recommend and FY2021 As Passed	Percent Change FY2022 Governor's Recommend and FY2021 As Passed
General Fund	10000	305,216	314,921	314,921	344,615	29,694	9.4%
Treas Retirement Admin Cost	21520	53,798	53,145	53,145	53,145	0	0.0%
Misc Special Revenue	21870	113,162	0	0	0	0	0.0%
Single Audit Revolving Fund	59500	2,837,534	3,214,114	3,214,114	3,647,816	433,702	13.5%
Funds Total:		3,309,710	3,582,180	3,582,180	4,045,576	463,396	12.9%
Position Count					16		
FTE Total					16		