

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**VERMONT COMPLIED WITH
REGULATIONS WHEN IMPLEMENTING
PROGRAMS UNDER SAMHSA'S OPIOID
RESPONSE GRANTS, BUT CLAIMED
UNALLOWABLE EXPENDITURES**

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May 2023
A-01-20-01501

Office of Inspector General

<https://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

Report in Brief

Date: May 2023

Report No. A-01-20-01501

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Audit

The HHS Substance Abuse and Mental Health Services Administration (SAMHSA) awarded a series of grants to States and Tribes to combat opioid use disorder. These grants included the Opioid State Targeted Response (STR) and the State Opioid Response (SOR) grants. The purposes of these grants were to increase access to treatment, reduce unmet treatment needs, and reduce opioid overdose-related deaths.

Our objectives were to determine: (1) how Vermont implemented programs under SAMHSA's STR and SOR grants and (2) whether the activities of Vermont entities responsible for implementing the programs complied with Federal and State regulations and met grant program goals.

How OIG Did This Audit

Our audit period covered May 1, 2017, through June 30, 2020, for the STR grant and September 30, 2018, through September 29, 2020, for the SOR grant. To accomplish our audit objective, we reviewed STR and SOR grant documentation and interviewed Vermont officials to determine how programs were implemented and whether Vermont complied with Federal and State regulations and met grant program goal requirements during the audit. In addition, we reviewed 25 invoices (5 per subrecipient) for the 5 subrecipients we selected to determine whether the expenses were reasonable, allowable, and allocable to the STR and SOR grants.

Vermont Complied With Regulations When Implementing Programs Under SAMHSA's Opioid Response Grants but Claimed Unallowable Expenditures

What OIG Found

Vermont's program related activities and its subrecipients responsible for implementing the programs complied with Federal and State regulations and met program goals of the STR and SOR grant. However, with regards to its financial related activities, Vermont claimed \$282,643 to the STR and SOR grants for unallowable subrecipient expenditures. Vermont reimbursed the unallowable subrecipient expenditures because its internal controls did not identify whether subrecipient expenditures were allowable to the STR and SOR grants. Specifically, Vermont did not: (1) ensure staff with appropriate training or accounting knowledge conducted pre-award risk assessments, (2) conduct annual site visits as required by the terms and conditions of the grant, and (3) require documentation to support the monthly invoices submitted by the subrecipients of the STR and SOR grant funds.

What OIG Recommends and Vermont Comments

We recommend that Vermont: (1) refund \$282,643 to the Federal Government, (2) require subrecipients to provide and retain supporting documentation for invoices submitted for reimbursement under Federal grants, (3) conduct a periodic review of supporting documentation for any subrecipient expenditures submitted for reimbursement, (4) provide training to the State employees responsible for conducting pre-award risk assessments, (5) conduct annual site visits as required by the terms and conditions of the grant award that include both a program and fiscal review.

In written comments on our draft report, Vermont did not indicate concurrence or nonconcurrence with our findings or recommendations; however, it requested removal of our first recommendation and described corrective actions it has taken or plans to take with the remaining recommendations. In response to our recommendations, Vermont has begun an orientation with subrecipients on the requirements to maintain all records pertaining to the performance under their agreement, will begin conducting periodic reviews of supporting documentation of subrecipient expenditures, and resumed required site visits. We maintain that our first recommendation is valid for Vermont to refund \$282,643 in unallowable costs to the Federal Government, and we recognize the steps Vermont has taken and plans to take to strengthen its internal controls over Federal funds.

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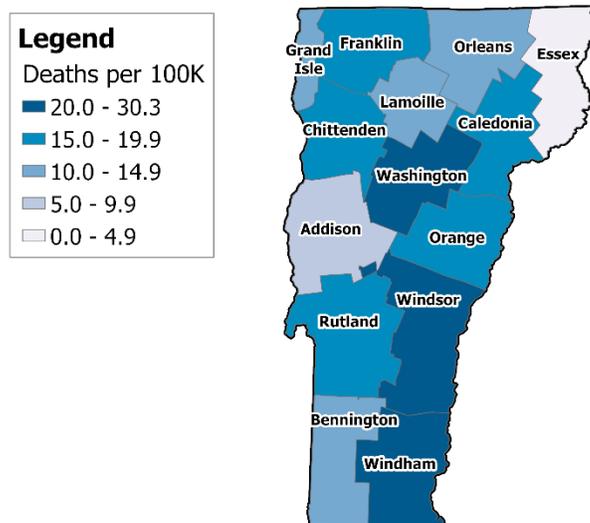
INTRODUCTION

WHY WE DID THIS AUDIT

The Department of Health and Human Services (HHS), Substance Abuse and Mental Health Services Administration (SAMHSA), has awarded a series of grants to States and Tribes to combat opioid use disorder (OUD). SAMHSA was authorized to award \$1 billion in OUD-related funding for fiscal years 2017 and 2018. This included funding for the State Targeted Response to the Opioid Crisis (STR) grants, the State Opioid Response

(SOR) grants, and the Tribal Opioid Response grants. The purposes of these grants were to increase access to treatment, reduce unmet treatment needs, and reduce opioid overdose-related deaths through prevention, treatment, and recovery services for OUD. States and Tribes that received these grants must use the funds to supplement activities pertaining to opioid-related activities administered under the Substance Abuse Prevention and Treatment Block Grant under the Public Health Service Act.¹ In March 2020, OIG issued a report examining the use of STR grant funds nationwide.² In this body of work, we are conducting a series of audits in various States and Tribal organizations of grantees that received funding through these three grant types.³ Accordingly, we selected for audit the STR and SOR grants awarded to the Vermont Department of Health, Division of Substance Use Programs (DSU), based on various risk factors, including the rate of drug overdose deaths in 2017 by county (Figure 1) and because DSU had the slowest rate of expending grant funds nationwide.⁴

Figure 1: 2017 Opioid Overdose Death Rate by County



Source: Vermont Department of Health

¹ Section 1921 of the Public Health Service Act, P.L. No. 78-410 (July 1, 1944).

² [States' Use of Grant Funding for a Targeted Response to the Opioid Crisis](#) (OEI-BL-18-00460), Mar. 13, 2020.

³ [Choctaw Nation of Oklahoma Made Progress Toward Meeting Program Goals During the First Year of Its Tribal Opioid Response Grant](#) (A-07-20-04121), Jan. 20, 2021, and [Louisiana Faced Compliance and Contracting Challenges in Implementing Opioid Response Grant Programs](#) (A-06-20-07003), Apr. 8, 2022.

⁴ DSU was formerly known as the Division of Alcohol and Drug Abuse Program during our audit period.

OBJECTIVES

Our objectives were to determine: (1) how DSU implemented programs under the opioid STR and SOR grants and (2) whether the activities of DSU and its subrecipients responsible for implementing the programs complied with Federal and State regulations and met grant program goals.

BACKGROUND

State Targeted Response Grants

SAMHSA awarded STR grants to address the opioid crisis by increasing access to treatment, reducing unmet treatment needs, and reducing opioid overdose-related deaths by providing prevention, treatment, and recovery activities for OUD, including prescription opioids and illicit drugs such as heroin.⁵ SAMHSA required in its Funding Opportunity Announcement (FOA) that grantees use epidemiological data to demonstrate critical gaps in availability of treatment for OUDs in geographic, demographic, and service-level terms; use evidence-based implementation strategies to identify which system design models will most rapidly address the gaps in their systems of care; deliver evidence-based treatment interventions, including medication and psychosocial interventions; report progress toward increasing availability of treatment for OUD; and reduce opioid-related overdose deaths based on measures developed in collaboration with HHS.

SAMHSA awarded a total of \$4 million in STR grants to Vermont's Department of Health in 2017 and 2018 for the performance period from May 1, 2017, through April 30, 2019.⁶ Figure 2 (on the next page) shows the geographical distribution of STR expenditures by county.

⁵ For example, training substance use and mental health care practitioners, reducing the cost of treatment, developing systems of care to expand access to treatment, engaging and retaining patients in treatment, and addressing discrimination associated with access to treatment, including discrimination that limits access to treatment, are activities that can reduce unmet treatment needs.

⁶ On April 18, 2019, SAMHSA granted a 1 year, no-cost extension that extended the grant period of performance to April 30, 2020.

State Opioid Response Grants

SAMHSA awarded SOR grants to address the opioid crisis by increasing access to medication for opioid use disorder (MOUD) using the three medications approved by the Food and Drug Administration (FDA) for the treatment of OUD; reducing unmet treatment needs; and reducing opioid overdose-related deaths by providing prevention, treatment, and recovery activities for OUD.^{7,8} SAMHSA required in its FOA that grantees base the services provided on needs identified in the State's STR strategic plan. SAMHSA

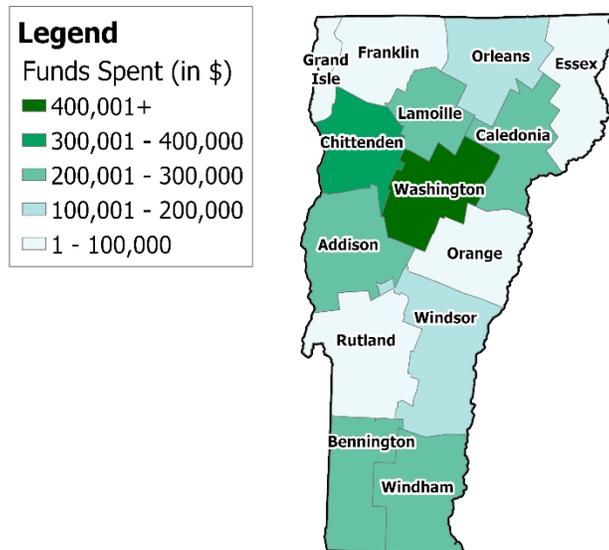
required that FDA-approved MOUD be made available to those diagnosed with OUD. In addition to providing MOUD, States are required to provide effective prevention and recovery support services to ensure that individuals receive a comprehensive array of services across the spectrum of prevention, treatment, and recovery.

SAMHSA awarded a total of \$10,140,700 in SOR grant funding to DSU for the performance period from September 30, 2018, through September 29, 2020.⁹ Figure 3 (on the next page) shows the geographical distribution of SOR expenditures by county.

Vermont Department of Health

The Vermont Department of Health's mission is to protect and promote the best health for all Vermonters. DSU is the State program office responsible for

Figure 2: State Targeted Response to Opioid Crisis Grant Expenditure by County



Source: HHS OIG Analysis of STR grant expenditures for the period of May 1, 2017, through April 30, 2020

⁷ MOUD is the use of medications, with counseling and behavioral therapies, to treat substance use disorders and prevent opioid overdose.

⁸ FDA-approved medications (methadone, buprenorphine, and naltrexone) are used to treat opioid dependence and addiction to opioids.

⁹ On September 21, 2020, SAMHSA granted a 1 year, no-cost extension that extended the grant period to September 30, 2021. We audited the SOR expenses through September 30, 2020 (cutoff for our audit period), which totaled \$6,025,595.

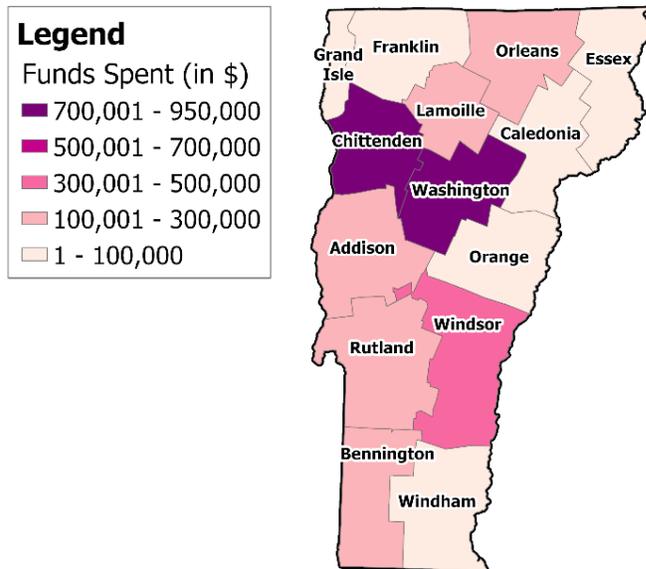
overseeing a network of health promotion, prevention, intervention, treatment, and recovery service to prevent, reduce, and eliminate the health impacts of alcohol, cannabis, opioid, and other drug use.

DSU works with national, State and community-based organizations to make programs and services available to Vermonters. DSU uses data to plan and

guide program improvements and to support Vermont’s statewide system of providers. The Vermont Department of Health contracted with subrecipients to expand on its existing programs and allow for an increase in the workforce, both in the treatment and recovery fields; add enhancements to clinical tools to decrease opioid use and increase access to treatment; and improve prevention programs’ response to the ongoing prevention needs in Vermont.

Prior to receiving STR and SOR grant funds, DSU used an existing “hub and spoke model” (Figure 4 on next page) to support people in recovery from OUD where the Opioid Treatment Programs (OTP) make up the hubs and the Office-Based Opioid Treatment Centers (OBOT) make up the spokes; therefore, DSU did not need to use STR and SOR grant funds to establish a treatment system. Under Vermont’s 1115 Global Commitment to Health waiver, Vermont was able to invest in opioid treatment services and enhance its existing system.¹⁰ The hub and spoke model includes 9 regional hubs that offer daily support for patients with complex addictions and 106 spokes that offer ongoing addiction treatment services where doctors, nurses, and counselors offer fully integrated general health care and wellness services. This framework deploys addiction expertise and helps expand access to OUD treatment for Vermonters.

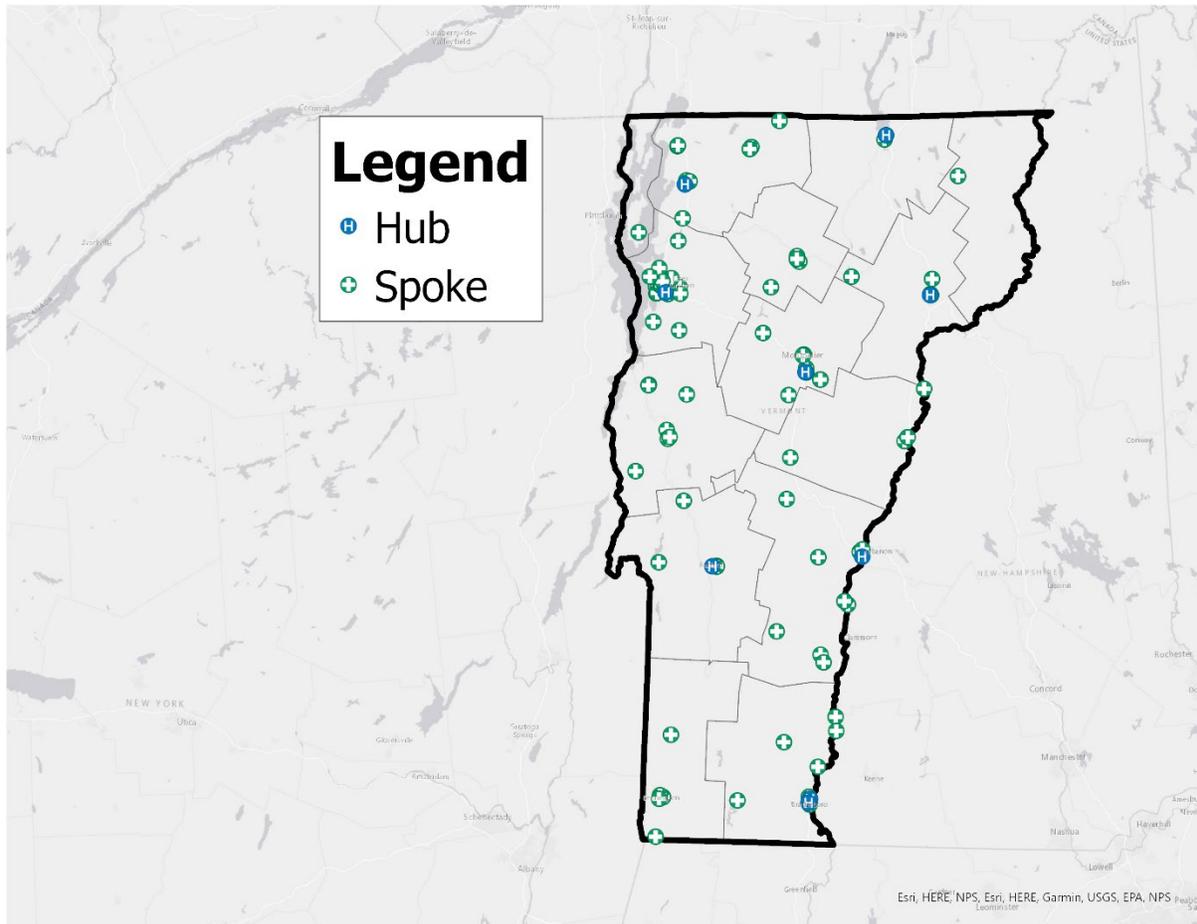
Figure 3: State Opioid Response Grant Expenditures by County



Source: HHS OIG Analysis of SOR grant expenditures for the period of September 30, 2018, through September 29, 2020

¹⁰ The 1115 Global Commitment to Health waiver is a demonstration waiver authorized through section 1115(a) of the Social Security Act by the Centers for Medicare & Medicaid Services, which allowed Vermont to receive Federal financial participation for the continuum of services to treat addictions to opioids and other substances.

Figure 4: Vermont's Hub and Spoke Model for Opioid Use Disorder Treatment



Source: HHS OIG Analysis

HOW WE CONDUCTED THIS AUDIT

Our audit period for the STR grant was from May 1, 2017, through June 30, 2020, the first 2 years of the STR grant and 12 months of the no-cost extension. For the SOR grant, our audit period was September 30, 2018, through September 29, 2020, the first 2 years of the SOR grant. The 12 month no-cost extension that went through September 29, 2021, was beyond the scope of this audit. To determine how DSU implemented programs under the STR and SOR grants, we reviewed DSU's STR and SOR grant application, reviewed the STR needs assessment and strategic action plan, and interviewed DSU officials responsible for administering the STR and SOR grants to gain an understanding of DSU's approach to distributing grant funds and implementing programs.

To determine whether DSU and its subrecipients met grant program goals, we reviewed DSU's STR and SOR annual progress reports and interviewed DSU and subrecipient officials responsible for implementing the STR and SOR grants. We then compared the annual progress

reports to DSU's stated grant application goals and objectives and determined whether DSU and its subrecipients met the STR and SOR grant program goals during the audit period.

To determine whether the activities of DSU and its subrecipients complied with Federal and State regulations, we reviewed DSU's internal policies and procedures, STR and SOR agreements with subrecipients, and annual progress reports. We also interviewed financial and programmatic officials from both DSU and its subrecipients.

We reviewed DSU's internal control design by reviewing DSU's internal financial management procedures and data collection procedures for the annual progress reports. To assess DSU's internal control implementation and operating effectiveness over the financial administration of grant funds, we reviewed the pre-award risk assessment of the five subrecipients selected. In addition, we reviewed 25 invoices (5 per subrecipient) for the five subrecipients we selected to determine whether the expenses were reasonable, allowable, and allocable to the STR and SOR grants. Specifically, within these 25 invoices, we tested 15 STR transactions, totaling \$204,606, and 11 SOR transactions, totaling \$384,336.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A contains the details of our audit scope and methodology, and Appendix B contains Federal and State regulations.

FINDINGS

DSU implemented programs under the STR and SOR grants by partnering with subrecipients and by entering into agreements with other State departments, including the Vermont Department of Corrections and the Vermont Department of Disabilities, Aging, and Independent Living. The program related activities of DSU and its subrecipients responsible for implementing the programs complied with Federal and State regulations and met the program goals of the STR and SOR grants.¹¹

However, with regards to its financial related activities, DSU claimed \$282,643 to the STR and SOR grants for unallowable subrecipient expenditures. DSU reimbursed the unallowable subrecipient expenditures because its internal controls did not identify whether subrecipient expenditures were allowable for the STR and SOR grants. Specifically, DSU did not: (1) ensure staff with appropriate training or accounting knowledge conducted pre-award risk assessments,

¹¹ Program related activities included expanding prevention and recovery services for OUD and improving access to recovery services and workforce development in Vermont.

(2) conduct annual site visits as required by the terms and conditions of the grant, and
(3) require documentation as recommended by the State of Vermont, Agency of Administration, Bulletin No. 5: Policy for Grant Issuance and Monitoring (Bulletin No. 5) to support the monthly invoices submitted by the subrecipients of the STR and SOR grant funds.

DSU'S PROGRAM RELATED ACTIVITIES COMPLIED WITH FEDERAL AND STATE REGULATIONS UNDER THE STATE TARGETED RESPONSE AND STATE OPIOID RESPONSE GRANTS

DSU implemented programs under the STR and SOR grants, in part, by awarding grants and contracts to 48 subrecipients and 14 contractors to build a comprehensive approach for the prevention and treatment of OUD involving multiple community partners and funding streams. This was established, in part, by hiring grant managers to coordinate grant activities and implementation, training, and monitoring of the grants. Grant managers assist subrecipients with grants management, evaluation, logic model development, and strategic planning.

Through the agreements made with its subrecipients and contractors, DSU implemented the STR and SOR grants by developing a pilot drug disposal project with the Vermont Lamoille County Sheriff's Department, expanding its drug disposal system by adding drug disposal kiosks in pharmacies and hospitals, implementing a mail-back envelope system, and enhancing the Vermont Prescription Monitoring System (VPMS) that was developed to promote the appropriate use of controlled substances for legitimate medical purposes while deterring the misuse, abuse, and diversion of controlled substances. According to the final progress report for the STR grant, funds were used to enhance VPMS to include Prescriber Insight Reports, which offer metrics on individual prescriber's prescribing practices in comparison to those of their peers.

The STR grant provided funding for the following:

Prevention projects identified by Vermont's Regional Prevention Partnerships (RPP)

grantees – Within the STR application, DSU proposed to fund up to 15 communities to identify prevention activities on opioid misuse and abuse that address the specific and unique local needs of these communities for all ages, especially those 25 and older. DSU achieved these goals by awarding 20 Community Prevention Capacity Building grants to communities to initiate comprehensive prevention work related to opioid misuse. Activities included training for youth and community members on opioid prevention strategies, community education on brain development and the effects of opioids, youth leadership training to address opioid use and misuse in the community, classroom education on opioid effects and prevention, implementation of family education programs, implementation of evidence-based programming for families, expansion of youth groups, and education on the dangers of mixing benzodiazepines and opioids.

Workforce development opportunities, such as the Office-Based Opioid Treatment training program

– Specifically, DSU's goals included, increasing the workforce capacity to treat substance use disorders. Nurse practitioners (NPs) and physician assistants (PAs) were not

previously eligible to prescribe and manage MOUD. Funding supported training using a federally mandated curriculum to provide the required hours to enable these providers to apply for waivers to prescribe MOUD. Trainings were conducted by a physician addiction specialist and were approved by SAMHSA in advance of being run. DSU increased the number of waived NPs by 69 percent (from 45 to 76 waived practitioners) and PAs by 31 percent (from 13 to 17).

Community education related to OUD and regional adult learning centers – Within the STR application, DSU identified goals to increase regional capacity to implement community-specific opioid strategies and to decrease opioid-related overdose deaths. These goals were met in part by implementing projects that included community prevention grants to coordinate and implement opioid prevention strategies, community education partnership with the statewide network of Vermont Technical Education Centers, and parent and family outreach through Vermont’s Parent Child Center Network. According to the final progress report for the STR grant, these goals were met by developing a community education curriculum on addiction, opioid education, and community strategies to prevent and assist those experiencing opiate addiction. In year 1, an opioid addiction course curriculum was developed and was piloted through the existing network of Adult Technical Education Centers. As part of year 2 expansion, prevention consultants were trained to co-lead these workshops in their respective counties.

The SOR grant provided rapid access to medication for OUD to three populations to improve access and engagement: (1) individuals who need, but are not actively seeking, OUD treatment; (2) individuals awaiting administration of MOUD; and (3) individuals who may be at heightened risk for opioid overdose. According to DSU, Vermont is piloting Rapid Access: Medication Assisted Treatment (RAM) in one region of the State. RAM is a treatment service delivery and outreach and engagement enhancement initiative for individuals in need of, but not seeking, treatment for OUD and individuals waiting for MOUD. RAM requires that MOUD is initiated within 72 hours of the first contact when clinically appropriate. Patients treated in the emergency room receive their first dose of MOUD and are paired with a recovery coach at the hospital. According to DSU officials, one goal of the RAM initiative is for all patients to receive their first MOUD dose within 24 hours no matter where they enter the system (i.e., hospital, OTP, OBOT).

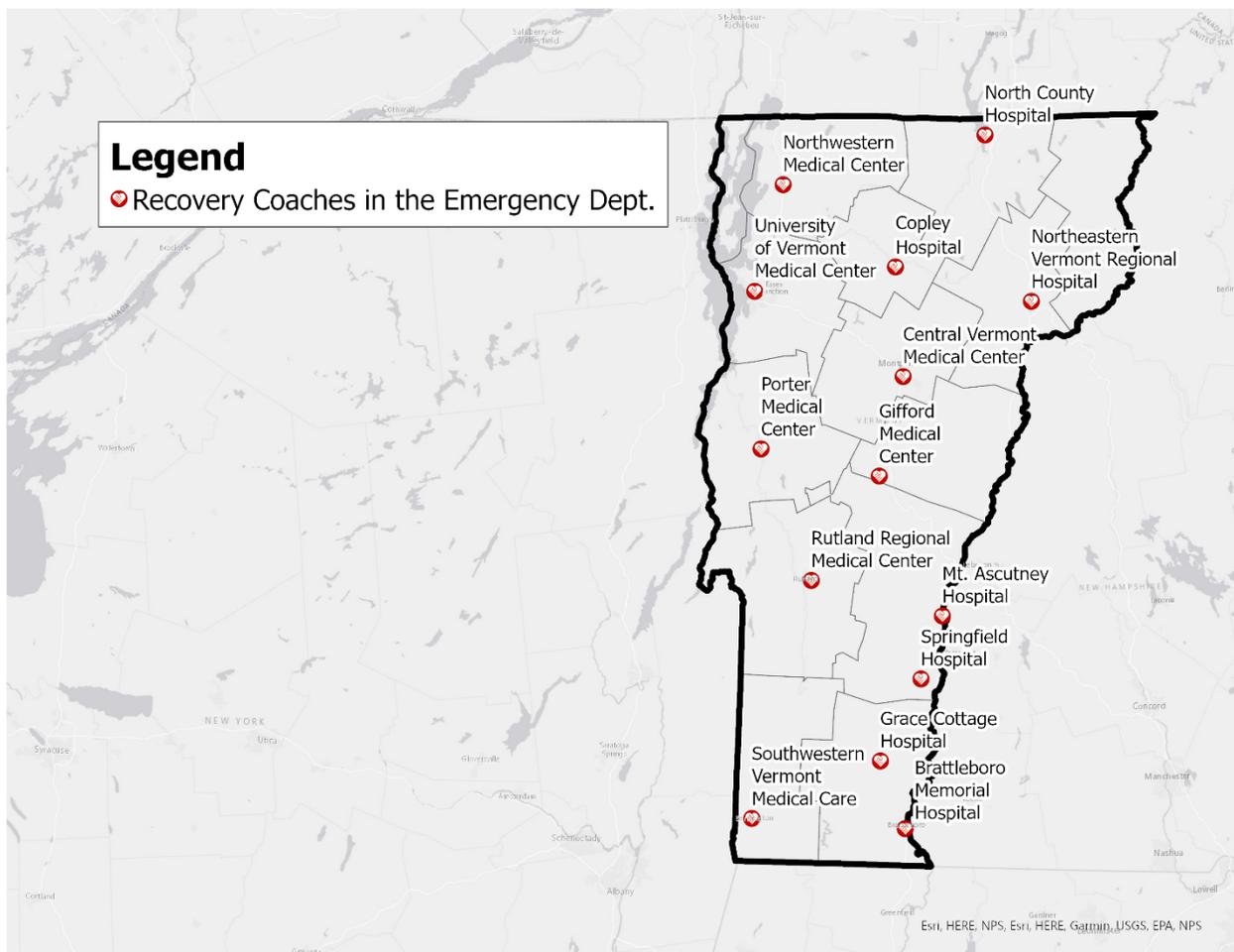
DSU distributed 8,682 Harm Reduction To-Go Packs (HRPs) to community providers, who then distribute the HRPs to the public through various venues to reduce risk of opioid overdose, generate greater awareness about treatment and recovery, and increase treatment engagement.¹² The HRPs included OUD and overdose prevention education materials, information on treatment and recovery resources, and Naloxone with administration instructions. Vermont also developed new partnerships with State housing supports and provided HRPs to the homeless population accessing emergency housing in Vermont motels,

¹² Naloxone kits are provided free of charge in Vermont at locations such as treatment providers, recovery centers, law enforcement agencies, EMS agencies, pharmacies and more.

due to the COVID-19 pandemic. Vermont increased the number of distribution partners, for a total of 64 sites around Vermont.

In addition, DSU enhanced the existing hub and spokes model and increased access to care by integrating recovery coach support services into emergency departments throughout the State through its Recovery Coaches in the Emergency Departments program (Figure 5). DSU also reduced transportation barriers with individuals who live in rural areas of Vermont by developing a telephone-based peer recovery support service and implemented a centralized statewide website to connect Vermonters to treatment, recovery, overdose prevention, and other services for substance use disorders.¹³

Figure 5: Vermont’s Recovery Coaches in the Emergency Departments



Source: HHS OIG Analysis

¹³ [VTHelplink.org](https://www.vtHelplink.org) launched for public use on Mar. 27, 2020.

DSU CLAIMED UNALLOWABLE EXPENDITURES TO THE STATE TARGET RESPONSE AND STATE OPIOID RESPONSE GRANTS

Federal Regulations

Federal regulations require each State to expend and account for the Federal award in accordance with State laws and procedures. In addition, the State's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions. These systems must trace the funds to the level of expenditures adequate to establish that such funds were used according to the Federal statutes, regulations, and the terms and conditions of the Federal award (45 CFR § 75.302(a)). In addition, Federal regulations state that grantees must establish and maintain effective internal control over grant funds and provide reasonable assurance that grantees are managing the program in compliance with Federal statutes, regulations, and the terms and conditions of the Federal grant (45 CFR § 75.303(a)).

Federal regulations state that costs must be necessary and reasonable for the performance of the Federal grant to be allowable, in addition to being adequately documented (45 CFR § 75.403(a) and (g)). The standards for the documentation of personnel expenses requires that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must be supported by a system of internal control that provides reasonable assurance that the charges are accurate, allowable, and properly allocated. The records must also support the distribution of an employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award, a Federal award and non-Federal award, an indirect cost activity and a direct cost activity, two or more indirect activities that are allocated using different allocation bases, or an unallowable activity and a direct or indirect cost activity (45 CFR § 75.430(i)(1)(i) and (vii)). The above Federal requirements flow down to subrecipients unless a particular section of this part or terms and conditions of the Federal award specifically indicate otherwise (45 CFR § 75.101(b)(1)).

All pass-through entities must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring (45 CFR § 75.352(b)). Pass-through entities must also monitor the activities of the subrecipients as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward, and they are responsible for ensuring that subaward performance goals are achieved (45 CFR § 75.352(d)).

State Regulations

State of Vermont, Agency of Administration, Bulletin No. 5: Policy for Grant Issuance and Monitoring

Bulletin No. 5 states that a grantee should have a system for managing the grant activities and must be able to demonstrate that the funds were spent on allowable activities and in accordance with grant requirements. Bulletin No. 5 also states that payments will be made to grantees based on the payment provisions outlined in the grant agreement that may vary depending upon the category of the grant award. Payments should be made upon receipt of a written request for payment from the grantee. In the case of reimbursable grants or those that are contingent upon completion of performance measures, these requests should be accompanied by reports or other documentation supporting the payment request.

The risk associated with a potential grant award should be assessed by the grantor prior to grant issuance, and grantors should avoid issuing awards to organizations categorized as high-risk. If a grantor feels that it is in the State's best interest to award a grant to an organization that is considered high-risk, written justification for the award must be included in the official grant file, which must be approved by the appointing authority. The award must also be issued on a reimbursement basis and additional monitoring requirements must be placed on the award. These additional monitoring requirements may include frequent programmatic review, frequent financial reporting, or site visits.

Bulletin No. 5 recommends that a pass-through entity's monitoring procedures may consist of monitoring both during the award and after the award. Activities may consist of one or more of the following:

- Desk review of subrecipient's financial and program reports.
- Review of backup documentation, such as invoices, payroll registers, and time and effort reports. These reviews may be performed onsite or as part of a desk review.
- Onsite monitoring of financial and programmatic requirements. Onsite visits can be very effective when both financial and programmatic review occur simultaneously, fostering a coordinated and comprehensive review of the grantee. Many pass-through entities establish a rotating cycle, visiting each subrecipient once every 2 or 3 years as a means of efficiently using often limited monitoring resources.

State of Vermont Department of Health Subrecipient Grant Agreement Language

The State will conduct annual site reviews to ensure compliance with the terms of the grant. During the site review, subrecipient's will provide documentation of compliance with all mandated requirements by Federal, State, county, and local authorities.

DSU Claimed Unallowable Subrecipient Expenditures

The five subrecipients that were selected for our sample received \$2,151,500 in STR and SOR grants during the audit period. In our sample of 26 STR and SOR transactions totaling \$588,942, we found that DSU reimbursed subrecipients for \$282,643 in unallowable expenses (Table 1).

Table 1: Subrecipient Unallowable Expenditures

Subrecipient #	STR & SOR Grant Amount Received	Unallowable Direct Expenditures	Unallowable Indirect Expenditures	Total Unallowable Expenditures
1	\$1,070,588	\$226,613*	\$22,661	\$249,274
2	\$139,326	\$18,226	\$1,823	\$20,049
3	\$241,824	\$12,109	\$1,211	\$13,320
4	\$500,573	\$0	\$0	\$0
5	\$199,189	\$0	\$0	\$0
Total	\$2,151,500	\$256,948	\$25,695	\$282,643

* This amount includes salary and fringe benefit amounts charged across all 18 submitted invoices from this subrecipient because the methodology it used to charge time and effort to the STR and SOR grants was the same process for all invoices submitted, not just the 5 sampled invoices. The allocation methodology used could not be supported, and timesheets or other time and effort reporting documents were not used to support the time charged to the STR and SOR grants. Therefore, we are questioning the total amount of salaries and fringe benefits the subrecipient charged to the STR and SOR grants, in addition to the unallowable "other direct" costs identified in the five selected invoices.

The \$256,948 in unallowable direct expenditures include:

- \$248,412 for salaries and payroll expenses that were not supported by timesheets, approved cost allocation methodologies, or other time and effort reporting documents;
- \$3,553 in training and education expenses without receipts, invoices, or proof of attendance;
- \$3,500 in expenses for hiring of a data consultant without a receipt or documentation for hiring a data consultant;
- \$642 for a duplicate expense for training and mileage billed in two consecutive months;
- \$579 in miscellaneous other direct expenses (i.e., gift cards, advertising, supplies, and equipment) without receipts or invoices; and
- \$262 in employee travel expenses without a receipt, invoice, or proof of travel.

In addition to these unallowable direct expenses, DSU also reimbursed these subrecipients \$25,695 in unallowable indirect expenses.

DSU claimed unallowable subrecipient expenditures because DSU's internal controls were not designed to identify whether subrecipient expenditures were allowable to the STR and SOR grants. Although DSU conducts a review by comparing the budgeted expenses to the subrecipient invoice, DSU does not require the subrecipient to submit supporting documentation with the invoice and, therefore, has no way to determine whether the invoiced expenses are reasonable, allowable, or allocable under the STR and SOR grants.

In addition, pre-award risk assessments were performed by DSU staff who did not have appropriate risk assessment training or lacked knowledge of accounting systems, cost allocation plans, and proper time and effort reporting. According to the risk assessments performed prior to the STR and SOR grants being awarded, none of the five selected subrecipients were considered high risk by DSU. However, according to DSU officials, based on the knowledge gained during our audit, all five of the selected subrecipients were considered high-risk in subsequent risk assessments conducted for new grants awarded by DSU.

DSU did not conduct annual subrecipient site visits as required by the terms of the *State of Vermont Department of Health Subrecipient Grant Agreement*. According to DSU officials, they do not require subrecipients to submit documentation with invoices and did not conduct site visits, in part, because they do not have the resources.

As a result, DSU claimed \$282,643 in unallowable expenditures from three of the five selected subrecipients. Without a review of supporting documentation, DSU has no assurance that all subrecipients expenditures are reasonable, allowable, and allocable to the STR and SOR grants. Furthermore, without supportable documentation, there was an increased risk that the subrecipients did not spend grant funds on the intended purposes.

RECOMMENDATIONS

We recommend that the Vermont Department of Health, Division of Substance Use Programs:

- refund \$282,643 to the Federal Government;
- require subrecipients to provide and retain supporting documentation for invoices submitted for reimbursement under Federal grants as recommended in Bulletin No. 5;
- conduct a periodic review of supporting documentation (i.e., invoices, payroll registers, and time and effort reports) for subrecipient expenditures submitted to DSU for reimbursement;
- provide training to State employees responsible for conducting pre-award risk assessments of potential subrecipients of Federal grant funds; and

- conduct annual site visits as required within the terms and conditions of the grant award that include program and fiscal reviews.

VERMONT DEPARTMENT OF HEALTH COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Vermont Department of Health (Vermont) did not indicate concurrence or nonconcurrence with our findings or recommendations; however, it requested removal of a recommendation and described corrective actions it has taken or plans to take with the remaining recommendations. In response to our recommendations, Vermont has begun an orientation with subrecipients on the requirements to maintain all records pertaining to the performance under their agreement, will begin conducting periodic reviews of supporting documentation of subrecipient expenditures and resumed required site visits. After reviewing the comments, we maintain that all our findings and recommendations are valid.

Vermont's comments are included in their entirety as Appendix C.

VERMONT DEPARTMENT OF HEALTH COMMENTS

In response to our first recommendation to refund \$282,643 to the Federal Government, Vermont requested that we remove this recommendation from our final report because it spent state funds of approximately \$1.2 million in excess of the STR and SOR grant awards on allowable activities during the grant performance period, which were not claimed under either STR or SOR.

In response to our remaining recommendations, Vermont described the corrective actions it has taken or plans to take. Specifically, it has begun to provide a complete review of the relevant requirements described in Bulletin No. 5. Vermont stated, "DSU will require that subrecipients provide additional documentation in support of invoices beginning July 1, 2023, as described in the subrecipient grant agreement." In addition, Vermont will begin conducting periodic reviews of supporting documentation of subrecipient expenditures submitted for reimbursement beginning July 1, 2023, and it will develop a process to ensure that employees responsible for conducting pre-award risk assessments of potential subrecipients are sufficiently trained. Lastly, Vermont said it had resumed the required grant award site visits in calendar year 2023.

OFFICE OF INSPECTOR GENERAL RESPONSE

The unallowable costs we identified demonstrates that Vermont had internal control issues that it needs to address. These issues may extend to periods beyond our scope; therefore, we have no assurance that the grant-related expenditures Vermont paid with State funds would be allowable to the STR and SOR grants. The use of these other State funds for STR and SOR grant activities does not absolve Vermont from following Federal regulations and requirements. Therefore, we maintain that our first recommendation is valid for Vermont to refund \$282,643

in unallowable costs to the Federal Government. We recognize and commend the steps Vermont has taken and plans to take to strengthen its internal controls over Federal funds.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit period for the STR grant was from May 1, 2017, through June 30, 2020, which was the first 2 years of the STR grant and 12 months of the no-cost extension. STR expenditures totaled \$4,071,203 of the total grant amount of \$4,000,000 (expenses above the grant amount were paid with State funds). For the SOR grant, our audit period was from September 30, 2018, through September 29, 2020, which was the first 2 years of the SOR grant. SOR expenditures totaled \$6,025,595 of the total grant amount of \$10,140,700. Our audit objective did not require an understanding or assessment of DSU's complete internal control structure. We limited our review of internal controls to obtaining an understanding of DSU's policies and procedures related to the financial management of grant funds and data collection and reporting.

This audit is one in a nationwide series of audits. We conducted our audit work from June 2020 to December 2022. On January 31, 2020, HHS declared a public health emergency for COVID-19, and on March 13, 2020, the President declared a national emergency to limit the spread of COVID-19; therefore, we were unable to conduct site visits in Vermont and at the subrecipients.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal, State, and grant requirements related to SAMHSA's STR and SOR grants;
- interviewed SAMHSA officials regarding DSU's progress in meeting the objectives of the grants, challenges of meeting the goals of the STR and SOR grants, and concerns related to the implementation of the grants;
- reviewed DSU's grant application, needs assessment, and strategic action plan to identify how DSU planned on implementing programs to meet the STR and SOR grant goals;
- reconciled STR and SOR grant expenditures to the annual Federal Financial Reports;
- interviewed DSU officials to gain an understanding of DSU's process for completing the annual progress report submitted to SAMHSA;
- interviewed DSU's financial and programmatic staff and reviewed related policies and procedures to obtain an understanding of DSU's monitoring of subrecipients activities;

- interviewed DSU officials responsible for administering the STR and SOR grants to gain an understanding of DSU's approach for distributing STR and SOR funds and whether DSU faced any challenges or barriers when implementing the programs;
- conducted a risk assessment to select five subrecipients for review based on funding, program goals, and type of services provided;
- selected and reviewed 25 invoices (5 per subrecipient) based on salary and other direct service amounts that were charged to the STR and SOR grants to determine whether the expenses were reasonable, allowable, and allocable (specifically, within the 25 selected invoices, we reviewed 26 transactions totaling \$588,942);
- interviewed selected subrecipients regarding implementation of the STR and SOR grants to gain an understanding of the prevention, treatment, and recovery services provided and whether the subrecipients faced any challenges or barriers when implementing these programs;
- interviewed subrecipient board members, executives, and accounting staff to obtain an understanding of the subrecipients' reimbursement and data collection and reporting processes for the STR and SOR grants;
- assessed DSU's internal controls by reviewing policies and procedures related to financial management, data collection and reporting, and subrecipient monitoring;
- discussed the results of our audit with DSU officials on December 15, 2022.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX B: FEDERAL AND STATE REGULATIONS

FEDERAL REGULATIONS

Federal regulations require each State to expend and account for the Federal award in accordance with State laws and procedures for expending and accounting for the State's own funds. In addition, the State's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions. These systems must trace funds to the level of expenditures adequate to establish that such funds were used according to the Federal statutes, regulations, and the terms and conditions of the Federal award (45 CFR § 75.302(a)).

Federal regulations state that grantees must establish and maintain effective internal control over grant funds and provide reasonable assurance that grantees are managing the program in compliance with Federal statutes, regulations, and the terms and conditions of the Federal grant (45 CFR § 75.303(a)).

Federal regulations state that costs must be necessary and reasonable for the performance of the Federal grant to be allowable, and these costs must be adequately documented (45 CFR § 75.403(a) and (g)). The standards for the documentation of personnel expenses requires that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must be supported by a system of internal control that provides reasonable assurance that the charges are accurate, allowable, and properly allocated. The records must also support the distribution of an employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award, a Federal award and non-Federal award, an indirect cost activity and a direct cost activity, two or more indirect activities that are allocated using different allocation bases, or an unallowable activity and a direct or indirect cost activity (45 CFR § 75.430(i)(1)(i) and (vii)). The above Federal requirements flow down to subrecipients unless a particular section of this part or terms and conditions of the Federal award specifically indicate otherwise (45 CFR § 75.101(b)(1)).

Payments made for costs determined to be unallowable by either the HHS awarding agency, cognizant agency for indirect costs, or pass-through entity, either as direct or indirect costs, must be refunded (including interest) to the Federal Government in accordance with instructions from the Federal agency that determined the costs are unallowable unless Federal statute or regulation directs otherwise (45 CFR § 75.410).

All pass-through entities must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring (45 CFR § 75.352(b)). Pass-through entities must also monitor the activities of the subrecipients as necessary to ensure that the

subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward, and they are responsible for ensuring that subaward performance goals are achieved. The State's pass-through entity monitoring of the subrecipient must include: (1) reviewing financial and performance reports required by the pass-through entity; (2) ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, onsite reviews, and other means; (3) issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required (45 CFR § 75.352(d)).

STATE REGULATIONS

State of Vermont, Agency of Administration, Bulletin No. 5: Policy for Grant Issuance and Monitoring

Bulletin No. 5 states that a grantee should have a system for managing the grant activities and must be able to demonstrate that the funds were spent on allowable activities and in accordance with grant requirements. Bulletin No. 5 also states that payments will be made to grantees based on the payment provisions outlined in the grant agreement that may vary depending upon the category of the grant award. Payments should be made upon receipt of a written request for payment from the grantee. In the case of reimbursable grants or those that are contingent upon completion of performance measures, these requests should be accompanied by reports or other documentation supporting the payment request. The payment schedule must be outlined in the payment provisions section of the grant agreement, which must also specify the reports or other documents necessary to generate payment.

The risk associated with a potential grant award should be assessed by the grantor prior to grant issuance, and grantors should avoid issuing awards to organizations categorized as high-risk. If a grantor feels that it is in the State's best interest to award a grant to an organization that is considered high-risk, written justification for the award must be included in the official grant file, which must be approved by the appointing authority. The award must also be issued on a reimbursement basis and additional monitoring requirements must be placed on the award. These additional monitoring requirements may include frequent programmatic review, frequent financial reporting, or site visits. When a grant award includes special conditions or additional requirements, these must be clearly specified in the grant award document.

Bulletin No. 5 recommends that a pass-through entity's monitoring procedures may consist of monitoring both during the award and after the award. Activities may consist of one or more of the following:

- Desk review of subrecipient's financial and program reports.
- Review of backup documentation, such as invoices, payroll registers, and time and effort reports. These reviews may be performed onsite or as part of a desk review.
- Onsite monitoring of financial and programmatic requirements. Onsite visits can be

very effective when both financial and programmatic review occur simultaneously, fostering a coordinated and comprehensive review of the grantee. Many pass-through entities establish a rotating cycle, visiting each subrecipient once every 2 or 3 years as a means of efficiently using often limited monitoring resources.

- Other audits. The entity should request copies of any recent audits performed in addition to a single audit.
- Limited scope engagements, which include the following types of compliance requirements:
 - activities allowed or unallowed;
 - allowable costs/cost principle;
 - eligibility;
 - matching, level of effort, and earmarking; and
 - reporting.

State of Vermont Department of Health Subrecipient Grant Agreement Language

The State will conduct annual site reviews to ensure compliance with the terms of the grant. During the site review, subrecipient's will provide documentation of compliance with all mandated requirements by Federal, State, county, and local authorities.



Department of Health
Office of the Commissioner
 108 Cherry Street – PO Box 70
 Burlington, VT 05402-0070
HealthVermont.gov

[phone] 802-863-7280

Agency of Human Services

April 27, 2023

Vermont Department of Health Response to Report Number: A-01-20-01501

Mr. Curtis Roy
 Regional Inspector General
 Department of Health and Human Services
 Office of Audit Services Region I
 15 New Sudbury Street
 Boston, MA 02203

Dear Mr. Roy:

Please see the below written responses to the recommendations contained in report number A-01-20-01501. We greatly appreciate the support and assistance provided by OIG staff during this program audit. Please do not hesitate to contact Megan Hoke, Financial Director at (802) 651-1670 or AHS.VDHAudit@vermont.gov with any questions or comments regarding our responses below.

Recommendation #1 - Refund \$282,643 to the Federal Government:

Response: The Vermont Department of Health respectfully requests that the recommendation to return funds be removed.

The Vermont Department of Health (VDH), Division of Substance Use Programs (DSU) spent a total of \$1,158,679 in excess of the STR and SOR grant awards on allowable activities during the grant performance period. These funds were not claimed under either grant award and were paid for with other state funds. Since Vermont had spending in excess of both the STR and SOR awards we respectfully request that the recommendation to return funds be removed.

Recommendation #2 – Require subrecipients to provide and retain supporting documentation for invoices submitted for reimbursement under Federal grants as recommended in Bulletin No. 5:

Response: Subrecipient grant agreements issued by the Vermont Department of Health already include provisions in “Attachment C – Standard State Provisions for Contracts and Grants” requiring the subrecipient to maintain all records pertaining to the performance under their agreement.



Corrective Action: DSU has begun, and will provide, a complete orientation to the requirements described in the:

- Vermont Agency of Administration’s Bulletin 5
https://aoa.vermont.gov/sites/aoa/files/Bulletins/Bulletin_5_eff12-26-14.pdf
 - Section VII - Monitoring
- Attachment C – Standard State Provisions for Contracts and Grants
<https://bgs.vermont.gov/sites/bgs/files/files/purchasing-contracting/Forms/ATTACHMENT%20C%20-%20rev%20Dec%202017%20CLEAN.pdf>
 - Section 13 – Records Available for Audit
 - Section 31B – Internal Controls

DSU will require that subrecipients provide additional documentation in support of invoices beginning July 1, 2023, as described in the subrecipient grant agreement.

Recommendation #3 – Conduct a periodic review of supporting documentation (i.e., invoices, payroll registers, and time and effort reports) for subrecipient expenditures submitted to DSU for reimbursement:

Corrective Action: DSU will begin conducting periodic reviews of supporting documentation of subrecipient expenditures submitted for reimbursement beginning July 1, 2023. In accordance with Vermont’s Administrative Bulletin 5.0, DSU will utilize two methods, as appropriate, and as described in the grant agreement document:

- Periodic submission of supporting documentation of expenditures submitted for reimbursement.
- Review of supporting documentation of expenditures submitted for reimbursement during site visits.

Recommendation #4 – provide training to State employees responsible for conducting pre-award risk assessments of potential subrecipients of Federal grant funds:

Response: DSU will develop a process to ensure that employees responsible for conducting pre-award risk assessments of potential subrecipients have sufficient training to perform such assessments.

Corrective Action: DSU will identify appropriate training resources and have staff complete training as soon as possible.

Recommendation #5 – Conduct annual site visits as required within the terms and conditions of the grant award that include program and fiscal reviews.

Response: DSU conducted subrecipient monitoring however annual site visits were not conducted in part due to the COVID-19 pandemic.

Corrective Action: DSU resumed grant award required site visits in calendar year 2023.

Sincerely,

A handwritten signature in blue ink that reads "Mark A. Levine". The signature is fluid and cursive, with the first name "Mark" and last name "Levine" clearly distinguishable.

Mark A. Levine, MD
Commissioner – Vermont Department of Health
108 Cherry Street
Burlington, VT 05402