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CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL CORPORATION

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December 29, 2006

Honorable Mayor and City Council  
City of Burlington  
Burlington, Vermont 05401

We have audited the financial statements of the City of Burlington, Vermont as of and for the year ended June 30, 2006 and have issued our report thereon dated December 29, 2006. We did not audit the financial statements of the Electric Department Fund. Those financial statements were audited by other auditors and our report on that Fund is based on the report of the other auditors. We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the City of Burlington, Vermont for the year ended June 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation, as described in the accompanying schedule of findings and reportable conditions, that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that four (4) of the reportable conditions are considered to be material weaknesses.

We have also noted other matters in the accompanying schedule of findings and reportable conditions. We have discussed the recommendations with the staff during the course of fieldwork and some of the recommendations may have already been implemented.

This report is intended solely for the information and use of management and should not be used for any other purpose. If you would like to discuss any of the recommendations further, please feel free to contact us.

We would like to take this opportunity to thank the staff of the City of Burlington, Vermont for their assistance and cooperativeness throughout our audit. It has been a pleasure working with you.

Respectfully submitted,

*Sullivan, Powers & Company*  
SULLIVAN, POWERS & CO.  
Certified Public Accountants

CITY OF BURLINGTON, VERMONT  
SCHEDULE OF FINDINGS AND REPORTABLE CONDITIONS  
FOR THE YEAR ENDED JUNE 30, 2006

REPORTABLE CONDITIONS:

Material Weaknesses:

City Finance Department Journal Entries

The City Finance Department's controls over the preparation and entry of journal entries are inadequate. Several journal entries were approved and processed by the City's Finance Department that were incorrect. These errors included journal entries being recorded in the incorrect fiscal year and journal entries being recorded backwards.

We recommend the City's Finance Department evaluate its controls over journal entries. We also recommend that staff be more thorough when preparing and approving journal entries.

School Department Journal Entries

The School Department has implemented procedures which require review and approval of journal entries being recorded in the accounting system. However, this review is not always done in a timely manner and some journal entries had not yet been reviewed. This deficiency could allow improper accounting to go undetected for some time. The School Department's general journal should also include better supporting documentation related to the journal entries.

We recommend that the School Department update its policy to review and approve journal entries in a timely manner. We also recommend that the School Department include more detailed supporting documentation for each journal entry.

System to Identify Additions/Deletions of Capital Assets

The City does not have a system in place that tracks the purchase and disposition of property, plant and equipment. Each department prepares a list at the end of the fiscal year detailing purchases and dispositions. This method has been ineffective as accounting personnel have had to spend significant time verifying this information and, in many cases, found the list to be incomplete and inaccurate. This required more research and time for the accounting personnel to search the City's records to identify all purchases and dispositions. There were significant errors in the original list such as inaccurate cost

We recommend the City develop a system for all departments to notify accounting personnel each time property, plant and equipment is purchased or disposed of.

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School Department Capital Project Accounting

The School Department does not have adequate procedures in place to record capital expenditures in the proper period. The School Department recorded certain expenditures in the period in which the expenditures were paid rather than when the work took place. This caused the capital asset records to be materially understated.

We recommend that the School Department implement procedures to ensure that expenditures for capital outlay are recorded when incurred.

Other Reportable Conditions:

Accounting and Procedures Manual

The City Clerk/Treasurer's office has a policy and procedures manual in place, however, it has not been completely updated for some time. This is vital in the event of turnover, but also defines duties and responsibilities for current personnel. Written procedures, instructions, and assignments of duties will prevent or reduce misunderstanding, errors, inefficient or wasted effort duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs. Additionally, the manual should incorporate procedures that have been implemented to ensure compliance with OMB, grantor and regulatory requirements.

We recommend that the City continue to update this document as soon as possible. Each individual should write out their duties and how to perform them. The manual should include examples of forms with descriptions of their use. Once updated, only changes in procedures or forms will require changes in the manual.

We believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

We also recommend that the City make sure that there are no jobs related to accounting and finance that only one person knows how to perform. The procedures manual would also be useful in determining whether this situation exists.

We also recommend that the City determine which departments have up to date manuals in place and begin the process of implementing manuals for all departments that have responsibility for financial and compliance issues.

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Internal Audit Function

The City receives certain revenue in the form of fees, taxes, leases at the Airport and other general revenue. The basis of this revenue is calculated as a percentage of other businesses' revenues. The City does not have an internal audit function in place to ensure that a complete population of reports has been submitted and/or to audit the reports that have been submitted.

We recommend that the City consider establishing some internal audit functions to enable them to audit submitted reports for accuracy and to determine that they have a complete population of these reports. At a minimum, we recommend that the City begin to track historical data that would show significant fluctuations in revenues or minimal growth of revenues which could indicate fraudulent reported amounts.

Fraud Risk Assessment

The City does not have a fraud risk assessment program in place. A fraud risk assessment is important because it identifies the City's vulnerabilities to fraudulent activities and whether those vulnerabilities could result in material misstatement of the financial statements. The fraud risk assessment would also identify processes, controls, and other procedures used to mitigate the identified fraud risks.

We recommend the City design a fraud risk assessment program to reduce the possibility of fraudulent activities.

Billing System/Accounts Receivable Ledger

The City does not have a centralized system in place to record all of its receivables on a timely basis. When determining the year-end receivable balances for grants, recreation fees, and public works fees, the City utilizes subsequent receipts. This resulted in a significant amount of time being spent to develop receivable lists as of June 30, 2006. This also indicates that the reports of the financial position of the City are inaccurate during the year.

We recommend the City implement a system to record significant receivables.

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Grants Management Database/Grant Revenue

The City has numerous grants for various projects throughout the City. It is often difficult to locate many of these grants and/or determine their requirements. The City needs to develop a database and have all departments report their respective grants to one designated person so that all the grants can be tracked in one location. The City was unable to provide a complete and accurate Schedule of Expenditures of Federal Awards. Issues included not including numerous grant and loan programs, calculating the Federal portions utilizing the incorrect grant percentage, and not including all the expenditures through the end of the fiscal year.

The type of information that should be included in the database is summarized as follows:

1. Grant award.
2. Grant period.
3. Grantor and contact name.
4. CFDA #.
5. Billing information.
6. Reporting information and due dates.
7. Fund #, grant #, and program #.
8. Narrative description of grant's purposes.
9. Current year expenditures.
10. Cumulative expenditures.
11. Cumulative receipts.
12. Other pertinent information.

We recommend that the City require that all departments report their respective grants to a designated person so that a grants database can be developed. This information will also aid in the development of the Schedule of Expenditures of Federal Awards and in completing a list of grants receivable at year-end. We also recommend that these revenues and expenditures be reconciled to the general ledger.

Time Sheet Approval

It is the City's policy to have a supervisor approve timesheets before submitting them to the payroll department for processing. This is important because it can detect irregular use of leave time and be sure that the proper amounts are paid. Based on our discussions with your staff, it was indicated that there were many instances in which there was no indication that the timesheet had been approved.

We recommend controls be implemented to ensure that all timesheets are approved before the payroll is processed. We also recommend this approval be documented on the timesheet.

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Parks and Recreation On-Site Program Receipts

The Parks and Recreation Department collects cash at various sites throughout the City for various programs and activities such as public beaches, the boathouse and marina, waterfront parking, Leddy Arena, the campground and various special events.

Several years ago, the City did a study on the cash procedures related to these activities and made a number of recommendations. Some of these recommendations were implemented, however, we noted a number of issues that still exist. The following is a summary of these issues:

Leddy Arena:

- Deposits are only done twice per week.
- There are no receipts or tickets given out for certain public skating programs.

Campground:

- Inventories of ice and wood are not taken so there is never a reconciliation of purchases to sales.
- There are no prenumbered receipts utilized for sales of wood and ice at night.

Boathouse:

- Boats are not compared to the maps maintained for overnight stays.

Waterfront Parking:

- Tickets are prenumbered but there is no accounting for the sequence.
- Handicapped customers are free but there is no information taken such as name or plate number to support this. Attendants just write handicapped on the ticket.
- There are no spot checks on the number of cars in the lot to sales.

Special Events:

- There is no reconciliation of sales to items purchased and sold during the events.
- There is no requirement to give out receipts.
- There is no reconciliation from the amounts turned in to the deposits at the bank.

We recommend that the City update their cash procedures study and implement better controls over these areas. Obviously, a cost/benefit analysis will have to be part of this process.

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Traffic Meter Receipts

The current system for collection of traffic meter receipts has very limited controls in place. There is currently no reconciliation of totals that are collected from the meters to what is deposited in the bank. Also, the current system allows individuals who collect cash to have access to the coins before the deposit is made.

We recommend that the City evaluate these procedures, with a cost/benefit analysis, to attempt to strengthen controls over meter receipts. We also recommend that the City utilize the electronic meters which have the capability to track financial information to reconcile revenue to the accounting records.

Parking Garage Revenue

During the year, the City implemented a new parking supervisors procedures manual. This manual is designed to provide guidance on a variety of issues that affect employees and supervisors of the garages. There are several items that should be included in the manual in order to clearly outline responsibilities for initiating, recording and performing internal auditing of transactions. The following are some of the items that should be included:

- 1) The manual does not specifically identify the procedures the accounting department is performing to internally audit those transactions.
- 2) The manual does not address new procedures implemented on monitoring of voided transactions. The manual should clearly outline who is monitoring and how the monitoring is occurring.
- 3) During the year, the City implemented new procedures to support transactions involving employee discounts, monthly passes, handicapped usage and hotel guest transactions. These new procedures and the responsibility for monitoring should be included in the manual.
- 4) The manual should also identify the process at the Airport related to credit cards and outline the staff responsibilities for recording transactions as well as tracking credit card denials.

We recommend this manual move from an operations base manual to a complete procedures manual that outlines all policies and procedures and who is responsible of each.



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The City initiated new procedures during the fiscal year but, since the procedures were not in place for the whole year, we still noted several issues during our testing.

- There were no support for some reports with employee discounts, monthly passes handicapped usage and hotel guest transactions.
- A few transactions did not have information attached to support the voiced transactions.
- One daily report had no supervisor approval.
- One master cash report was not approved.

The Airport has equipment to monitor long-term parking but has not coordinated with the equipment provider to implement this.

We recommend that the City implement procedures to monitor long-term parking at the Airport.

#### Procurement

The City does not have a process in place to be sure that each department is following its procurement policy. Additionally, the policy does not appear to include procedures on certification of suspension and debarment that could impact compliance with Federal grant requirements.

We recommend that the City develop a system to make sure all departments are following the policy. We also recommend the City review its procurement policy to be sure it includes all items that are required by Federal grant regulations.

#### Review of Spreadsheet Calculations

The City prepares numerous schedules utilizing spreadsheets to calculate amounts recorded in the financial statements. However, the City does not have a control process in place to have an individual review the schedules for accuracy and mathematical errors. Some of those schedules did not calculate the account balance properly due to errors in the formulas.

We recommend that spreadsheets supporting amounts recorded in the financial statements be reviewed for proper calculations.

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School Department Food Service – Segregation of Duties

Currently, the School Department's food service daily cash up procedures has one person who is responsible for cashing out the registers and making deposits to the bank. The procedures do not include a reconciliation of the deposits back to the cash register reports by someone independent of the deposit process. It is important to have an independent check of deposits back to source documents to verify the deposit was made intact.

Also, the system of controls does not have consistent documented procedures to track or monitor voided transactions. Voided transactions can be utilized as a way to perpetrate fraud and should be closely monitored by management.

We recommend that the School Department food service amend its procedures to have each register attendant cash out their own drawers and implement new procedure to agree deposits back to source documentation by someone independent of the deposit process. We also recommend that the cash registers be monitored for voided transactions.

Other Recommendations:

Human Resources/Payroll:

Hiring Procedures

City policy is for the Human Resources Department to make final approval of hiring decisions. The City currently hires and pays some employees prior to final approval from the Human Resources Department.

We recommend the City follows its policy and not allow an individual to perform work and be paid until the Human Resources Department has provided final approval.

Nepotism Policy

The City has a nepotism policy but it allows related parties to work in positions which should be segregated for internal control purposes.

We recommend that the City review and amend its nepotism policy so that related parties cannot work in positions that should be segregated for internal control purposes.

Federal Forms W-4 and I-9

Federal guidelines require that each employee submit a federal form W-4 and I-9 when they are hired. W-4's may be changed as many times as needed. There are employees that did not have a W-4 and/or an I-9 in their personnel file.

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We recommend the City review all personnel files to be sure they include the required documentation.

Employee Reimbursement Policy

The City, including the School Department, is reimbursing employees for travel expenses and for City expenses that were paid for by the employee. The documentation on some of these reimbursements was insufficient. In some cases, the employee only supplied the credit card statement and not the actual receipt. Also, we noted that the City was paying sales tax on certain purchases when the City is exempt from sales tax.

We recommend the City review its policy regarding employee reimbursement and strictly enforce the policy by requiring proper documentation.

General City-Wide Issues:

Uninsured/Uncollateralized Deposits

The City had more than \$100,000 in their money market accounts during the year and at June 30, 2006. The basic insured amount for a depositor at each bank is \$100,000 each for interest bearing and non-interest bearing accounts. Any amounts in excess of the FDIC insured limits can be offset to the extent of any debt at that bank. The City has collateralization and repurchase agreements at certain banks, however, the agreements do not encompass all of the accounts, particularly certain accounts of the School Department.

Additionally, the City deposits the majority of its deposits at a local financial institution which has entered into a repurchase agreement with the City. Under this agreement, the City purchases a U.S. Government Security at the end of each business day and the institution agrees to repurchase it from the City the next business day. This protects the City's deposits in excess of FDIC insured amounts during non-business hours. However, this agreement does not protect the City from loss if the financial institution defaults on its obligations during business hours.

We also noted that the agreement does not cover all accounts of the City.

Our primary recommendation is that the City's monitor the stability of the financial institution holding its deposits. We also recommend the City consider amending this agreement with the financial institution to cover the deposits at all times. We further recommend the agreement include all City accounts and that the agreement be updated as necessary to include any accounts opened in the future.

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Disaster Recovery Plan

The City does not have well-defined, written disaster recovery procedures. The time to make contingency plans is before disaster strikes so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing facilities. We suggest that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

- Location of, and access to, offsite storage.
- A listing of all data files that would have to be obtained from the offsite storage location.
- Detailed instructions for restoring backup files and a copy of all policy and procedures manuals.
  
- Identification of a backup location (name and telephone number) with similar or compatible equipment and availability of programs for emergency processing (management could make arrangements for such backup with another company, a computer vendor, or a service center. The agreement should be in writing).
- Responsibilities of various personnel in an emergency.
- Priority of critical applications and reporting requirements during the emergency period.

Revenue Recognition/Fraud Prevention:

Personal Use of Fuel

There are insufficient controls over the fuel pumps at the Department of Public Works facility. Certain employees are able to fuel-up personal vehicles when traveling for City business. This also allows employees to fuel up at other times without being questioned by other employees. In addition, there may be issues resulting from Internal Revenue Service regulations.

We recommend that the City monitor the use of the fuel by vehicle or individual. We also recommend that the City determine that they comply with all relevant IRS regulations.

Code Enforcement Revenue/Receivables

The Code Enforcement Department's software can only print out receivable reports as of the report printing date. Additionally, the software cannot generate bills for previous fiscal years and this requires the current year billings to include some prior year billings. This inflates the current year revenue reports and creates difficulty in providing a receivable report to the Finance Department at year-end.

We recommend the Code Enforcement Department print a receivable list at the end of each fiscal year to be utilized by the Finance Department. We also recommend that if amounts are billed twice, the original billing be written off in the billing software to prevent double counting of receivables.

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Arts Department Receipts

The Arts Department collects money for various purposes but does not maintain a receipt log tracking the purpose and period for which the money is intended for. A summary is prepared by the Arts Department and forwarded to the Clerk/Treasurer's office with very little support for where the receipts should be recorded in the accounting records. Additionally, it was unclear why certain July receipts were recorded as June revenues.

We recommend the City Arts Department implement a receipts log to track the receipts and reconcile this information to the accounting records. We also recommend that year-end receivable amounts be sufficiently substantiated.

Auditorium Receipts

The Auditorium staff collects cash for entrance fees and concession fees. A cash drawer is utilized instead of a cash register. Receipts are not given out when fees are paid. Also, the same individual collects cash, prepares the deposit and prepares the summary "Daily Reports to Clerk/Treasurer" which is remitted to the Treasurer's office. Further, there is no reconciliation of concession sales to concession inventory purchases.

We recommend that the City assess the costs and benefits of converting to a cash register that produces receipts. We also recommend that the City require that Auditorium staff give out receipts or prenumbered tickets for events. We also recommend that someone independent of the receipt and deposit function reconcile sales to deposits and sales to purchases.

Police Fee Revenue Recognition

The Police Department charges a fee for providing an officer at events sponsored by various entities. These revenues are recorded into the expense account where the officer's salary is charged. This understates both the revenue and expenses of the Department and is not in conformance with generally accepted accounting principles.

We recommend the Police Department record all fees to a revenue account so as to reflect the revenue and salary expenses at gross.

Police Special Services Fees

The City currently charges a fixed rate per hour to companies that hire the Police Department to do special services such as traffic control.

We recommend that the City review its special services fees to determine if they are adequate to cover all of its expenses including benefits and administrative costs.

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Champ Camp Revenue

The City has received a grant from the State for the Champ Camp Program for many years. The grant for the summer of 2006 was received in July, 2006. This check was all coded to fiscal year 2006 by the Recreation Department even though most of the grant applied to fiscal year 2007. This overstated the fiscal year 2006 revenue and distorted the fiscal impact of the program. City records confirm that this erroneous practice first occurred in fiscal year 2000 and was followed in all subsequent years except fiscal year 2003.

We recommend that the City review the grant conditions of its various grants and allocate the grant revenue to the appropriate periods so as not to overstate the revenue of the program.

Accounting Issues:

Accounts Receivable Review

The City has many receivables that have not been collected in many years. If these are not collectible, they should be written off. This includes personal property taxes, real property taxes, loans, Airport fees, project reimbursements, fire alarm fees and police ticket fines. Additionally, the City has not reviewed the allowances for doubtful accounts for these items in a timely manner.

We recommend the City review its accounts receivable lists and write-off amounts deemed uncollectible and review the allowance accounts on a more timely basis.

Airport Improvement Program Billing

The City's Airport Department does not compare the reports filed with the FAA to the accounting system's general ledger for each AIP project. We noted several discrepancies between the general ledger and the FAA reports.

We recommend the Airport Department compare each report to the general ledger to verify that reports are filed accurately and that the transactions have been appropriately recorded in the accounting system.

Classification of Expenditures

The City records certain non-capital projects in capital outlay budget lines. An example of this is reappraisal and zoning rewrite expenditures. However, the City does not have a process in place to convert the expenditures from the budgetary coding to appropriate line items for financial reporting. This overstated capital outlay and understated another expenditure line item, such as general government or public safety.

We recommend the City record all expenditures into an appropriate budget category or develop a process to convert the non-capital expenditures to a more appropriate category.

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Full Accrual Accounting

The City is required to report its governmental activities on the full accrual basis of accounting and the modified accrual basis of accounting. Currently, the City does a good job maintaining its records for the modified accrual basis. However, significant time is required to report on the full accrual basis of accounting.

We recommend the City review its process of reporting to determine if it can develop a process to more easily report on the full accrual basis of accounting.

Telecom Fund Salary Allocations

The City tracks the telecommunications expenses by phase. However, the payroll charges are being allocated between each of its different phases based on predetermined percentages. This practice distorts the actual expenses for each of the three phases. The payroll allocations should be based on actual time spent on each phase and be supported by approved timesheets.

We recommend that all payroll charges be spread to each phase based on an analysis of approved timesheets. We also recommend this be done as frequently as possible to keep the internal records accurate during the year for management analysis.

Capital Project Fund Accounting

The City does not reconcile all of its Capital Projects Funds on a timely basis. This practice causes the financial information of the City to be distorted during the year and until the funds are fully reconciled. This also creates difficulty in completing the detailed list of capital assets as of the end of the year.

We recommend the Capital Project Funds be updated on a timely basis and as soon after year-end as reasonably possible.

Interdepartmental Activity

The City writes numerous checks to itself as a way of paying interdepartmental invoices. The City also records interdepartmental activity through posting journal entries. The City also records accounts receivable and accounts payable at year-end to reflect amounts owed to or from other departments. This practice overstates both assets and liabilities of the City.

We recommend the City establish one (1) method of posting interdepartmental activity and that all unpaid interdepartmental activity be paid through the City's "pooled" cash accounts at June 30 of each year.

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General Fund FICA Tax and Retirement Expenses

As mandated by the City Charter, the City sets a retirement tax rate which is intended to fund the FICA tax and retirement expense for the General Fund and the School Department's non-teacher employees. This retirement tax rate is based on a retirement budget using estimated payroll amounts. The tax rate is multiplied by the Grand list and this is the amount of contributions that the General Fund makes to the Retirement Fund. This method is inconsistent from all other departments in the City. Other departments pay exactly 7.65% of salary for FICA and pay a certain retirement percentage based upon an actuary's recommendation. The General Fund never does a "true up" to determine whether they underpaid or overpaid for FICA or retirement thus potentially making it inequitable among all funds.

The General fund does not utilize the actuarial percentage for retirement either. The General Fund retirement contribution is based on what is left over after FICA is paid from the amount of taxes raised. In years where there is significant employee turnover, additions or reductions, the amount of FICA due could be higher or lower than budgeted. All FICA expense is passed through the Retirement Fund to the Internal Revenue Service so the Retirement Fund recognizes that the General Fund pays all of its required FICA expense first. Consequently, the amount of money left over for retirement funding could be less than what is required by the actuary. For 2006, all departments paid more than the required amount for the year, however, the General Fund had a significant shortfall causing a current year Net Pension Obligation. This net pension obligation results in additional accounting and actuarial complexity.

We recommend that if the City continues to set a retirement tax rate in order to raise taxes to be used for retirement and FICA expenses, that the amount that is transferred to the Retirement Fund be calculated in the same manner as all other departments. This may result in the General Fund having excess taxes raised or they may have to utilize other revenue sources to fund any shortfall. This process will ensure equity among all departments.

Net Pension Obligation

For 2005 and 2006, the City incurred a net pension obligation by underpaying the actuarial required contribution. Due to the fact that the General Fund does not contribute to the Retirement Fund in a consistent manner as all other departments, the net pension obligation can not be ratably spread among all funds. In 2006, the General Fund was the only fund that underfunded the pension and all other departments overfunded the annual required contribution. The 2005 net pension obligation was created by all of the funds but the General Fund amount was considerably higher than all of the other funds. This methodology of funding the net pension obligation has created a more complex actuary and accounting environment.

We recommend that the City determine a repayment plan for the net pension obligation that ratably reflects each department's net pension obligation and interest expense for the past two years' shortfalls.



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CEDO Loans Receivable

There were \$205,050 of notes receivable that were not included in the detailed lists of notes receivable or in the accounting records of the City. Also, the City does not review its calculations of loan discounts or its allowance for doubtful loans in a timely manner.

We recommend the detailed lists of notes receivable be reviewed for completeness and updated as new notes are issued or as payments are received. We also recommend the City review its loan discount calculations and allowance for doubtful loans in more timely basis.

Disclosure Issues:

Capital Lease Purchases

Governmental accounting standards require that the amount of assets purchased through capital lease financing and the related accumulated depreciation be disclosed in the annual audited financial statements. Currently, the City is not able to identify all of the assets acquired through capital leases in its detailed capital asset listing.

We recommend the City review its capital asset list and note which items were purchased through the use of capital leases.

Telecom Fund Indebtedness

The Telecommunications Fund has borrowed funds for capital purchases and cash flow for operating expenses until revenues are sufficient to meet ongoing obligations. Governmental accounting standards require the amount invested in property, plant, and equipment to be reflected in the financial statements. The City has not tracked the amount of borrowed funds invested in capital assets.

We recommend the City review its disbursement of debt proceeds to determine the amount spent on capital items versus the amount spent on operating expenses.

City-wide Investment Policy

The City is required to disclose its investment policy and other restrictions on investments. Excluding the Pension Fund, the City does not have a formal investment policy. The Revenue Bonds of the Water, Electric, Airport and Telecom funds do have certain restrictions governing the investment of bond proceeds.

We recommend the City establish an investment policy that would apply to all departments of the City.

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Miscellaneous:

Daily Deposits by the Clerk/Treasurer

We noted numerous "Deposit Packets" that did not include all of the information to support the deposit. Some did not include the "Receipt Detail Report" and others did not have the "Interface Reports". These reports show the general ledger posting detail and detailed report of property tax payments.

Additionally, the "Daily Reports to Clerk/Treasurer" do not always breakout the receipts between taxes and miscellaneous. This causes difficulty agreeing the deposits to the "Interface Reports".

We recommend that these reports be kept together and that all receipts be appropriately identified.

Burlington Community Development Corporation Debt

The Burlington Community Development Corporation (BCDC) is a component unit of the City and is included as a part of the reporting entity. BCDC is paying the City's General Fund for a portion of a Certificate of Participation. The City considers a portion of this to be debt of BCDC, however, there is no documentation of this.

We recommend the City document this agreement.

FAA Reporting

The City had not filed its quarterly reports to either the FAA or the carriers as required. The City has been in contact with the FAA on this issue and has subsequently filed the reports.

We recommend that the City file its quarterly reports as required.

PFC Cash Balance

The City tracks the PFC cash balance utilizing separate general ledger accounts within the Airport Fund's general ledger. It appears the City may have been charging the expenditure account for capital expenditures for projects financed with debt. The City has been in contact with the FAA on this issue and has subsequently corrected their records.

We recommend that the City not charge the PFC account for capital expenditures that were financed with debt.

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Airport Security Fees

The City's Airport Fund pays the General Fund a pre-determined fee to provide police security at the airport facility. There is no written agreement which outlines how the fee is derived or the level of service to be provided. The General Fund's cost of providing the security was more than the amount received from the Airport Fund.

We recommend the City review this arrangement and document how the fee is derived and the level of service to be performed. It should also indicate the effect of increases or decreases in the amount of security provided.

School Department:

School Department Capital Assets

The School Department has not reviewed its property, plant and equipment list for deletions. The School Department has also not recorded additional assets for its book collection since fiscal year 2002.

We recommend the School Department review its list of property, plant and equipment for deletions and review its book collection for additions or deletions since fiscal year 2002.

School Petty Cash Accounts

There are minor, immaterial amounts of petty cash funds for the individual schools that are not reflected in the financial statements of the School Department. Although the size of these accounts are small, the School Department should account for the activities of each account.

We recommend that the School Department address the need to maintain timely and accurate information regarding all of the cash accounts in their control.

School Department Pension Expense

The School Department does not pay into the Retirement Fund of the City. The City's General Fund pays the School Department's portion to the Retirement Fund. This is not reported on the statistical report to the State.

We recommend that the School Department determine if the retirement contribution should be reported on the statistical report to the State.

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Single Audit Issues:

Documentation of Time and Effort – Semi-Annual Certifications

A Local Education Agency that participates in a school-wide program and whose employees compensation is funded solely from a combined school-wide program must have the employees furnish semi-annual certifications that he/she has been engaged solely in activities supported by those funds in accordance with OMB Circular A-87. The School Department participates in a school-wide program. The School Department implemented a policy to have employees who are engaged solely in activities supported by school-wide program funds complete the semiannual certifications.

However, the School Department had employees whose time was split between different activities complete semi-annual certifications when Federal regulations indicate that actual time spent on each activity should have been documented. Further, these employees did not complete a timesheet or another form of documentation of time and were instead charged to the Federal grants based on budgeted allocation which is not in compliance with OMB Circular A-87. The amount of questioned costs as a result of this is as follows:

Title I Grant to Local Educational Agencies	\$250,054
Improving Teacher Quality State Grants	\$ 36,383
Special Education Grants to States – IDEA B	\$183,291
Safe and Drug Free Schools and Communities – National Programs	\$ 94,433

In addition, indirect costs based on an approved rate of 1.23% were charged to the Title I Grants to Local Educational Agencies and the Improving Teacher Quality State Grants.

We recommend that the School Department obtain only semi-annual certifications from employees whose compensation is funded solely from a combined school-wide program and that all other employees document time spent on each activity in accordance with OMB Circular A-87.

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Documentation of Time and Effort – Timesheets

The School Department charged salaries to the Title I Grants to Local Educational Agencies, Improving Teacher Quality State Grants, Special Education Grants to States – IDEA B and Safe and Drug Free Schools and Communities Grant – National Programs based on timesheets prepared by the employees. However, the timesheets were completed by staff based on the budgeted staff allocations to the program. Staff were instructed daily to complete timesheets daily based on actual time. The timesheets were also only completed and/or turned in three times during the year. Federal regulations require that grants be charged based on actual expenses or time studies that are performed throughout the year and can be shown to be statistically accurate. Federal regulations also require that timesheets be completed at least monthly and coincide with at least one payroll period. The amount of questioned costs as a result of this is as follows:

Title I Grants to Local Educational Agencies	\$812,762
Improving Teacher Quality State Grants	\$ 16,502
Special Education Grants to States – IDEA B	\$167,538
Safe and Drug Free Schools and Communities – National Programs	\$ 52,747

In addition, indirect costs based on an approved rate of 1.23% were charged to the Title I Grants to Local Educational Agencies and the Improving Teacher Quality State Grants.

We recommend that the School Department have employees complete timesheets at least monthly and make sure that they coincide with at least one payroll period. We also recommend that the School Department have employees complete their timesheets based on actual time that is spent on a Federal program.

Special Education Grants to States Grant – IDEA B Budget Increases

The Special Education Grants to States Grant – IDEA B indicates that if any line item in the detailed budget is to be increased by \$300 or 10% of that item, whichever is greater, the grantee need to amend the grant. The School Department had two line items over budget by greater than the allowed amount. One instance was when a teacher was charged to the grant in the amount of \$25,860 but was not budgeted. The second instance was in regards to the Contracted Special Education Staff which was budgeted at \$65,000 and the actual expenditures were \$73,508.

We recommend that the School Department amend the grant budget when they hire a new employee who is not in the budget and when they make expenditures that that are in excess of the budgeted amount by more than the allowed amount by more than the allowed amount.

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Documentation of Time and Effort-Timesheets Controls

The School Department charges salaries to the Title I Grants to Local Educational Agencies, Improving Teacher Quality State Grants, Special Education Grants to States – IDEA B and Safe and Drug Free Schools and Communities – National Programs based on timesheets prepared by the employees. However, the timesheets are completed based on the budgeted staff allocations to the program. Staff were instructed to complete timesheets daily based on actual time. Also, timesheets were only completed and/or turned in three times during the year instead of at least monthly. There are no procedures in place to be sure that timesheets are completed based on actual time. Also, there are no procedures in place that require employees to complete timesheets at least monthly during the year. Additionally, the timesheets are required to be approved. The following items were noted in regards to the Federal Programs:

- Special Education Grants to States Grant – IDEA B – Two (2) instances out of six (6) tested did not have all three timesheets. There was one missing for each employee.
- Title I Grants to Local Educational Agencies – One (1) instance out twenty-six (26) tested did not have all three timesheets. There was one (1) timesheet missing.
- Title I Grants to Local Educational Agencies – One (1) instance out of twenty-six (26) tested where a timesheet was not approved.

We recommend the School Department implement procedures to ensure that timesheets are prepared based on actual time spent on a program and that all timesheets are maintained and approved in accordance with School Department policy.

Documentation of Time and Effort – Semi-Annual Certifications Controls

A school that participates in a school-wide program and whose employees compensation is funded solely from a combined school-wide program must furnish semi-annual certifications that he/she has been engaged solely in activities supported by those funds in accordance with OMB Circular A-87. The School Department implemented a policy to have employees who are engaged solely in activities supported by school-wide program funds complete the semi-annual certifications. However, we noted the following:

- Special Education Grants to States – IDEA B – Six (6) instances out of sixteen (16) tested completed a semi-annual certification instead of a timesheet based on actual time.
- Safe and Drug Free Schools and Communities – National Programs – Three (3) instances out of ten (10) tested completed a semi-annual certification instead of a timesheet based on actual time.

We recommend that the School Department improve its procedures to be sure that only employees who are required to complete a semi-annual certification do so and the remaining employee's complete timesheets based on actual time.

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Grant Budget to Actual Comparison Controls

The School Department does not have controls in place to monitor compliance with the Special Education Grants to States – IDEA B budget or to request grant amendments from the grantor. The grant has budgeted amounts for each expense and the grant will not cover expenditures over the approved budget unless the grant is amended.

We recommend the School Department implement controls to monitor budget compliance and to request budget amendments when necessary.

Allocable Costs

The Improving Teacher Quality State Grant funds may be used to provide professional development for teachers and some instances principals and paraprofessionals. The School Department charged the purchase of computers to the grant. Computers do not appear to be an allowable cost for the grant. The cost of the computers was \$1,085.

We recommend that the School Department review its grant requirements for allowable costs and, if there are any questions, contact their grantor.

Period of Availability

The grant period for the Improving Teacher Quality State Grant ends on June 30, however, the School Department has up to 90 days after the end of a grant period to expend funds if they were incurred prior to the end of the grant period. Some items that were paid in July and August, 2005 were not charged to the correct fiscal period, and therefore, were not charged to the correct grant.

We recommend that the School Department review its controls over recording invoices in the correct fiscal period and additionally to the proper grant.

Budgeted Amounts Allocated To Federal Grants

The School Department allocated some expenses to the Improving Teacher Quality State Grant and the Title I Grant to Local Educational Agencies grant based on budgeted amounts. Federal regulations require that grants be charged based on actual expenses. A tuition bill was allocated based on the employee's staff budgeted allocation to both grants in the amount of \$1,182. The administrative costs were charged to the Title I Grant to Local Educational Agencies based on the State approved Restricted Indirect Cost Rate. However, the rate was applied against the budgeted expenses for the year instead of the actual expenses.

We recommend that the School Department charge all expenses based on actual as required by OMB Circular A-87.

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Detailed Employee Expense Reports & Reimbursement

Employee expense reports need to contain all information relevant to the expenses being requested for reimbursement including people, dates, itineraries, copies of airline tickets, detailed receipts, etc. Credit card receipts are not sufficient to determine the items purchased. Such information is required by Federal regulations. Four (4) employee reimbursements, out of thirteen (13) tested, did not have sufficient documentation to determine the item purchased. Additionally, one (1) expense reimbursement for the Safe and Drug Free Schools and Communities Grant was paid to a different employee than the one requesting reimbursement.

We recommend that the School Department obtain all required information on all expense reports. We also recommend that the School Department reimburse the individual that incurred the expenses and requested reimbursement.

Highly Qualified Teachers

The School Department does not have a written policy on verifying that teachers and paraprofessionals are highly qualified and how the determination is made.

We recommend that the School Department implement this policy.