

**CITY OF BURLINGTON, VERMONT**

**Management Letter**

**For the Year Ended June 30, 2019**

## TABLE OF CONTENTS

	<u>PAGE</u>
<b>INTRODUCTORY LETTER</b>	1
1. Improve Capital Project Accounting	2
2. Enhance the Quarterly Financial Statements	3
3. Improve Retirement Reconciliations and Perform an Internal Audit	3
4. Improve Controls Over Journal Entries and Adhere to a Formal Closing Schedule	5

To the Honorable Mayor  
and City Council  
City of Burlington  
149 Church Street  
Burlington, VT 05401

Additional Offices:  
Andover, MA  
Greenfield, MA  
Manchester, NH  
Ellsworth, ME

In planning and performing our audit of the basic financial statements of the City of Burlington, Vermont as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit, we became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

This communication is intended solely for the information and use of management, Mayor and City Council, and others within the City, and is not intended to be, and should not be used by anyone other than these specified parties.

*Melanson Heath*

January 23, 2020

**1. Improve Capital Project Accounting (Prior Year Comment)**

The City's general ledger for capital projects is very summarized, especially when compared to the City's 10-Year Capital Plan. For example, the 10-Year Capital Plan identifies multiple parks' projects, however, all parks' "Special Projects" (the fund's name) are accounted for in one general ledger fund. A similar situation exists where all "Infrastructure Projects" are in only one fund. Additionally, personnel in the Clerk/Treasurer's Office do not have comprehensive engineer-prepared project cost estimates. Further, the purpose of the City's annual borrowing is generic and usually reads for "financing certain capital improvement for the City". As a result:

- The status of individual projects is not maintained in the general ledger.
- Individual project budget and actual is not maintained in the general ledger.
- Life-to-date revenue and expenditure reports are not prepared.
- A significant amount of journal entries are processed by the City.
- Determining if costs are project eligible is difficult and often results in significant journal entries.
- Determining unspent bond proceeds by project is not maintained in the general ledger.

We recommend that the City re-design how activity related to the City's 10-Year Capital Plan is maintained in the general ledger. In doing so, the City should address the six items noted above and perform an in-depth analysis of the summarized accounting to produce the life-to-date reports for each individual project. Implementation of this recommendation will provide the City with the necessary framework for more complete capital project financial reporting.

We understand that the City has hired a consultant to assist with implementing this recommendation. The project is underway and the consultant is working with the City to define and implement Best Practices.

City's Response:

The City has retained Berry Dunn, the local government consulting group, to lead a business process review of its capital project accounting practices. The review will be collaborative, with participation from a number of City divisions. The first phase of the project will focus on understanding challenges and areas for improvement in the current environment, followed by a second phase to develop an implementation plan of solutions, potentially involving process, policy, or technology changes. The key objective is to address the above recommendations.

**2. Enhance the Quarterly Financial Statements (Prior Year Comment)**

The financial reports published by the City provide only year-to-date revenues and expenditures by each fund. While this provides valuable information for the general, water, and waste water funds, the current reporting structure does not provide management with the current balances available in numerous special revenue and capital project funds. (Examples include individual CEDO grants, Pennies for Parks, Waterfront Access North, Impact Fees, and the Tax Increment Financing District).

We recommend that the City redesign the formal financial report to include project-level balances. Implementation of this recommendation will enable management to more easily identify areas that need additional analysis and adjustments.

Finally, we recommend that the City's regular reporting package include reports designed to provide users with the financial position of the Impact Fees and the Tax Increment Financing District funds including the disclosure of amounts committed for future debt service and future project financing.

City's Response:

The City's consultant, Berry Dunn, recommended a dedicated capital project accountant as an early action item in the implementation who would address the above recommendations.

The City has had difficulty filling this position and now is in the process of finding an independent contractor.

At a high level, the scope of services will include:

- Coordinate project accounting activities across the City.
- Develop and perform regular financial reporting to include developing, designing, and providing financial and budget-related information, tools, and reviews.
- Develop and maintain policies as well as procedures to identify and implement additional analysis and adjustments.
- Track Tax-Increment Financing District (TIF) projects, including maintaining debt and cash flow models.

**3. Improve Retirement Reconciliations and Perform an Internal Audit**

*Expand Retirement Reconciliations With Data Provided to Actuary (Prior Year Comment)*

During our audit of the Burlington Employees Retirement System (the Plan) we exchanged data with the City's actuary and three contributing entities (Burlington School District, Burlington Electric Department, and City of Burlington). We noted that certain data provided to the actuary did not reconcile, lacked completeness or was unavailable, with the underlying records maintained by the Plan. For example, pensionable earnings used

in determining the Total Pension Liability of three entities was different than the same information we obtained directly from the entities.

We recommend that the Plan implement a more comprehensive set of reconciliations of data collected from the three entities. We further recommend that the Plan's reconciliations be reviewed by the City's Comptroller prior to submitting to the City's actuary. Implementation of this recommendation will provide assurance that the data provided to the City's actuary (used to determine the Total Pension Liability) is complete and accurate.

*Perform an Internal Audit (Current Year Comment)*

As noted above, our census data testing disclosed multiple deviations from expected results. Additionally, our other testing of retirement data disclosed deviations with respect to the completeness of new member files, benefit payments and various reconciliations. Accordingly, we recommend that the City perform a comprehensive internal audit of the BERS with a goal to re-design the Plan's internal control structure.

City's Response:

The City has determined that a single full-time position with support to service all retirees, active, and vested employees as well as the Retirement Board is inadequate. To address this concern the Clerk / Treasurer's Office began working with Hooker & Holcombe (H&H) to outsource the hosting and maintenance of a retirement administration system in October 2019, and implementation is expected to take approximately one full year. The addition of the transition to outsource retirement, and the day-to-day requests has caused the City to fall behind on our reconciliations.

We finalized the data for completeness and reviewed for accuracy the third week of December after the test work was done by the auditors. The revised data was sent to H&H for additional test work and review, and was deemed to be in good standing.

The new system that is being implemented is expected to meet the auditor's recommendation and will provide the following:

1. Cost efficiency—reduce overall costs.
2. Accuracy – consolidate member data and calculations in one pension administrative system to reduce the chance of corruption of the data and improve the accuracy of benefit calculations and timely payment;
3. Efficiency –use current technology to automate processes and make staff more efficient in their work;
4. Customer service –provide a level of service commensurate with other cities with respect to the ability for members to access their individual information and avail themselves of services from the chosen software website (change of address, request information, complete forms, etc.);
5. Security – increase compliance with industry security standards to ensure that data is kept secure, accessible, and confidential.

**4. Improve Controls Over Journal Entries and Adhere to a Formal Closing Schedule**

During our audit, we observed that significant year-end journal entries were being made in November 2019, five months post year-end. As a result, several Divisions, as well as the Clerk Treasurer's Office were not ready for audit fieldwork as planned, and individual fund operating results were not known until well after year-end. We also noted that on several occasions two individuals posted the same journal entry, resulting in the doubling-up of the required transaction, indicating that both individuals were performing the same function. Additionally, our testing disclosed multiple entries that were originally made to incorrect accounts, resulting in the need for further correcting entries. In our opinion, these situations result from the City reviewing revenue and expenditure accounts but not performing regular reviews of various balance sheet accounts (see related comment #2).

We recommend that the City regularly review all general ledger accounts on a monthly basis. Implementation of this recommendation should result in earlier identification of the need for entries, improved internal reporting, and a streamlined the year-end closing process. We further recommend that the City provide corrective action to ensure two individuals are not performing the same function. Finally, we recommend that the City consider additional higher level accounting personnel in the Clerk Treasurer's Office to ensure a timelier year-end closing, and to address the other items noted in this Management Letter.

**City's Response:**

We concur that there is a need for additional higher-level accounting personnel to ensure a timelier year-end closing for the General Fund, and accept the added responsibility that the Clerk /Treasurer's Office will work with other divisions to ensure they are better prepared for the audit.

We do see an opportunity to streamline the financial closing by completing monthly reconciliations with new technologies, reallocating resources, training, and the addition of added support.