



CITY OF BURLINGTON, VERMONT

Management Letter
For the Year Ended June 30, 2022

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

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, 2022, 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.

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 significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified.

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 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. A reasonable possibility exists when the likelihood of an event occurring is either reasonable possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

Our consideration of internal control was for the limited purpose described in the first 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.

Merrimack, New Hampshire
Andover, Massachusetts
Greenfield, Massachusetts
Ellsworth, Maine



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.

The City's written responses to our comments and suggestions have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Melanson

Merrimack, New Hampshire
February 28, 2023



1. Improve General Ledger Monitoring and Adhere to a Formal Closing Schedule (Prior Year Comment)

Our audit disclosed that the City continues to make a significant number of material journal entries five to six months after year-end. Some of the journal entries were identified by Clerk Treasurer's (CT) Office Staff, while other were identified by analytical procedures performed by Melanson. Specifically, the General Fund trial balance on December 1, 2022 reported an excess of expenditure over revenues of approximately \$7 million. Review of budget and actual comparison schedules disclosed that ARPA grant amount of \$5 million should have been recognized in the General Fund per budget approved by City Council, but was erroneously reported in a special revenue fund. Multiple other entries over \$1 million each were posted in December 2022 to both General Fund and special revenue funds. Significant auditor and CT identified adjustments were also made in the various capital project funds in December 2022, refer to related comment number two. Another General Fund entry impacted the results of the pension fund, refer to related comment number three. Accurate and timely statements provide key data to support fiscal monitoring, and monthly review of all funds' balance sheets and budget vs actual schedules is necessary to ensure accurate reporting.

We continue to recommend that the City perform year end closing more timely. Step one in accomplishing this goal involves designating an individual to monitor and analytically review the general ledger on a monthly basis. Performing analytical procedures include reviewing all funds and balances to identify anomalies (which could be material misstatements) including unexpected deficits in fund balances and unexpected budget vs actual results. Management should monitor the process of reviewing monthly reports to ensure anomalies are identified timely. Step two is to establish a timeline to cure any misstatements within an appropriate timeframe. Implementation of this recommendation should result in earlier identification of the need for additional entries, improved internal reporting, and will streamline the year-end closing process.

We further recommend that the individual designated to monitor the general ledger on a regular basis and perform analytical review of all funds and balances should have limited other office responsibilities until corrective action is accomplished.

City's Response:

The Clerk Treasurer's office (CTO) agrees that a significant number of material journal entries were made after year-end.

It should be noted the approved \$5 million in ARPA funds was only to be posted by the CTO if needed, and the amount was posted based on actual performance to budget. A review of budget vs. actual demonstrated the need to post the full \$5M budgeted, and the journal entry required was posted incorrectly. It was mutually agreed the error was made, and we agree that additional staff training is required to ensure this does not happen again.

We acknowledge multiple entries were posted to the capital project funds in December. It was determined that the funding source of these funds could be filled by the use of previous premiums not utilized, and the promise of future donations. The CTO provided insight to the challenges that could impact the results of the pension fund early in the audit. This was due to a Settlement Agreement with IBEW that has not yet been finalized by legal counsel. The collective review demonstrated the need to adjust our books, and was a unique situation. We appreciate Melanson's guidance on the accounting treatment in this circumstance.

The CTO would like to note a substantial amount of staff turnover that took place in fiscal year 2022 due to retirements, and a major reorganization resulting in the shift of many accounting tasks to existing staff members. This does not excuse late journal entries or mistakes but this staff turnover does explain the particularly chaotic nature of this year's closing. We worked closely with consultant CliftonLarsonAllen (CLA) to add or replace much needed staff to CTO including a Senior Accountant, Cash & Banking Accountant, and Operations Director. We greatly appreciate the Board of Finance and City Council's support and approval of these important changes. As our new team learns their new roles, it will improve the timeliness of audit deadlines, and identifying anomalies. Despite these challenges, the CTO completed the final audit 60 days earlier than fiscal year 2021 and is poised to do so earlier and more correctly in fiscal year 2023.

We appreciate Melanson's recommendations to ensure a more timely closing and the Chief Administrative Officer will work with the team to identify one person, as requested, to absorb the new responsibility to review the general ledger on a monthly basis with support of the Comptroller, and the accounting team. This person will have limited other responsibilities and will focus on monitoring the general ledger on a regular basis and performing analytical review of all funds and balances and sharing them with management on a monthly basis. This person will also be responsible for ensuring that any mistakes are also cured within an appropriate timeframe.

2. Improve Community Economic Development Officer (CEDO) Capital Project Accounting

During our audit process, we noted that a capital funding source, grant revenue amount of over \$2 million, was posted to the CEDO special revenue fund instead of Moran Plant capital project fund in error.

Complete and accurate capital project fund accounting is essential throughout the year as accurate and timely statements provide key data to support fiscal monitoring, and without it, monitoring is difficult. Monitoring capital project funds for deficits and ensuring that all transactions were properly posted should be part of the monthly analytical review.

City's Response:

The City believes that while significant progress has been made with regards to our capital project fund accounting, acknowledges that there is still room for improvement and our

next focus will be on the streamlining of CEDO accounting to ensure timely and accurate reporting. We will begin working with CLA this month, and over the next few months rebuild the organizational sets to ease the tracking of actual vs. budget results for capital project funds, and operating expenditures. The new organizational sets will be set up and ready for Fiscal Year 2024 budgets. We plan to centralize our federal and state grants to help with the management of our capital projects, help reduce our deficits, and allow for more timely financial data. We have taken the steps to improve the Schedule of Expenditures of Federal Awards reporting by requiring all grants regardless of size to be approved by BOF, and have designated the Grants Director as the manager of this process.

This additional level of accountability will help improve this revenue source to be applied to capital, and improve timelines.

3. Review City Ordinance Language in Comparison to Collective Bargaining Agreements (CBAs) in Relation to Pension

We are aware of inconsistent language in Collective Bargaining Agreements (CBAs) and the City Ordinance with respect to pension benefit calculations that has resulted in retroactive adjustments to pension benefits.

We recommend that the Legal Department ensure the language in CBAs reference applicable section of the City Ordinance or otherwise provide assurance the language in CBAs matches the City Ordinance. Implementation of this recommendation will help ensure that pension benefits are made in accordance with City Ordinance.

City's Response:

The CTO agrees with this recommendation, and to help with this initiative is requesting support from pension administrator Hooker & Holcombe (H&H) to help identify the inconsistent language in the CBAs, and the City Ordinance. H&H will provide a list of inconsistencies to help aid the Legal Department's review.