

# Sullivan, Powers & Co.

CERTIFIED PUBLIC ACCOUNTANTS

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December 30, 2004

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

We have audited the financial statements of the City of Burlington, Vermont as of and for the year ended June 30, 2004 and have issued our report thereon dated December 30, 2004. 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, 2004 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 judgement, 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.

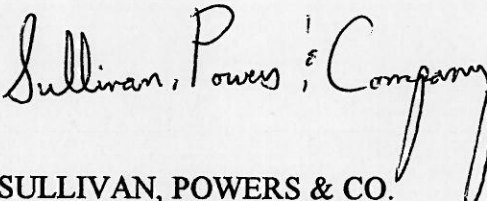
Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that two (2) of the reportable conditions are considered to be material weaknesses.

We have also noted other matters in a separate letter to the City Treasurer dated December 30, 2004. 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,

A handwritten signature in cursive script that reads "Sullivan, Powers & Company". The signature is written in dark ink and is positioned above the printed name of the firm.

SULLIVAN, POWERS & CO.  
Certified Public Accountants

CITY OF BURLINGTON, VERMONT  
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REPORTABLE CONDITIONS:

Material Weakness:

Segregation of Duties – School District Bank Reconciliations

An important factor in developing good internal control procedures is to divide responsibilities so that no individual can both perpetrate and conceal errors and irregularities. One of the most common division of duties is the division between the custody of cash and the accounting functions.

In the City of Burlington School District, the accountant had access to the City Treasurer's signature stamp, reconciled the bank account and posted daily transactions into the accounting system. Each of those duties is considered incompatible functions for accounting control purposes.

We recommend that the School District not allow the same person to have access to the signature stamp and reconcile the bank statements. In April 2004, the School Department modified its procedures and the accountant no longer has access to the signature stamp.

Journal Entries

The City's journal entries, except for the School Department, are being approved. However, significant journal entries were approved that were incorrect. This included recording the receipt of more than \$1.3 million dollars into the expenditure accounts that were charged for the related expenditures. The receipts were related to Federal loan proceeds and a Federal transportation grant. The City also recorded receipts into the debt service expenditure accounts for amounts paid by developers related to the debt service. This understated both revenues and expenditures for the year.

We recommend that an appropriate individual closely examine all material, nonrecurring journal entries. We also recommend that the City record all receipts to a revenue account and all disbursements to an expenditure account to avoid understating revenues and expenditures.

Additionally, the School department has not implemented procedures to review and approve journal entries being recorded in the accounting system. The School department also does not keep a general journal with supporting documentation related to the journal entries.

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We recommend that the School Department develop a process which requires appropriate officials to review and approve journal entries. We also recommend that the School Department begin to keep a general journal with supporting documentation for each journal entry.

Other Reportable Conditions:

Segregation of Duties in Student Activity Accounts

An important factor in developing good internal control procedures is to divide responsibilities so that no individual can both perpetrate and conceal errors or irregularities. One of the most common division of duties is the division between the custody of cash and the accounting functions.

For the Burlington School District Student Activities Accounts, through February 2004, the same person that reconciled the checking accounts also posted to the journals, had check signing authority and made the deposits. Each of those duties are considered incompatible functions for accounting control purposes.

The limited staff available in the office provided little opportunity to achieve an optimum separation of duties and responsibilities. However, the School Department assigned an individual who does not have check signing authority to perform the reconciliations of cash accounts on a monthly basis starting in February, 2004.

Accounting and Procedures Manual

The City 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 and grantor requirements.

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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.

#### Internal Audit Function

The City receives certain revenue in the form of gross receipts tax, 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 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.

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Billing System/Accounts Receivable Ledger

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, 2004. 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 during the year.

Reconciliation of Long-term Liabilities

The City maintains a long-term debt schedule but it is not updated on a monthly basis and it is not accurate because it does not include all new debt. The schedule had many deficiencies such as new notes and bonds not being listed and the prior year's ending balances being incorrect. This list should include all additions and deletions to accounts in the general ledger. Additionally, the list should include a section to track bond issue costs and deferred savings from refunding bonds.

We recommend that the long-term debt schedule be updated monthly or when a debt payment is made. We also recommend that an appropriate person review the schedule for accuracy and completeness. We also recommend that the receipts and payments be reconciled to the general ledger on a monthly basis.

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 also encounters difficulty completing a list of grants receivable at year-end.

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The type of information that should be included in the database is 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 grants 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 ensure that the proper amounts are paid. We noted, in a sample of sixty (60), thirteen (13) transactions where there was no indication that the timesheet had been approved. Eight (8) of these transactions were in the Police Department.

We recommend that all timesheets be approved before the payroll is processed. We also recommend this approval be documented on the timesheet.

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Parks and Recreation Office Receipts

The Recreation Department collects cash, checks and credit card payments for recreation fees. A cash drawer is utilized instead of a cash register. Receipts are not consistently being given to participants when fees are paid. Also, a detailed list of individuals submitting fees is not maintained to support the deposit. Instead, a summary is prepared and sent to the Treasurer's office daily. The Parks and Recreation Department does have accounting software but it is mainly used to keep a list of participants. The financial aspect of the software is not utilized due to a lack of training and the information is not compared to the general ledger. Also, the same individual collects cash, prepares the deposit and prepares the summary remitted to the Treasurer's office.

We recommend that the City assess the costs and benefits of converting to a cash register and segregating the collection, deposit and summarization duties between multiple individuals. We also recommend the City obtain the training required to further utilize the Parks and Recreation Department's software and then compare the Department's records to the City's general ledger and utilize the system to track receivables.

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 weekly.
- . There are no receipts or tickets given out for certain public skating programs.
- . There are no spot head counts ever done to verify attendance.
- . Inventories at the snack bar are not tied out and reconciled to sales.



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**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.

**Beach Gates:**

- . There are no signs indicating that receipts are required.
- . There are no spot checks on the number of cars in the lot to sales.

**Boathouse**

- . Boats are not compared to the maps maintained for overnight stays.
- . There are no signs indicating that receipts are required.

**Waterfront Parking:**

- . There are no gates controlling entrance or exit.
- . Tickets are prenumbered but there is no accounting for the sequence.
- . Void tickets are maintained in the booth but no one is following up on accounting for the voids.
- . If a customer loses a ticket, a new one is used and the attendant just writes in the entrance time per the customer and there is no accounting for the original ticket.
- . Fees are manually calculated.
- . Receipts are not required to be given out.
- . 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 way to reconcile and compare 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 continue to move towards electronic meters which have the capability to track financial information which can be used in the reconciliation process.

Parking Garage Receipts

There is no written procedures manual on parking garage revenue. This revenue stream, with numerous transactions that involve cash, is very vulnerable to potential fraud and abuse. A good manual will help identify the fraud risks, identify the controls and outline procedures to help minimize fraud potential.

We noted several issues related to the parking garage revenue process.

- . Receipts are issued only to customers who request them.
- . Voided transactions are not consistently investigated.
- . A cash register was left open during shifts.
- . There is limited review of transactions involving employee discounts, monthly passes and handicapped usage.
- . Some documentation such as lane cash register tapes and parking tickets were destroyed rather than retained for accounting and auditing.
- . The gate at the municipal parking garage to the lower level was left open many times during our site visits.
- . There is limited monitoring of how often keys are used to manually open the cash drawers.

We recommend that the City do a complete procedural review of the parking garage revenue stream. This should include the process and controls at each of the garages as well as the accounting procedures at the Department of Public Works. We also recommend that this review be utilized to create a manual.

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Procurement

The City has a procurement policy in place, however, it does not appear to include procedures on certification of suspension and debarment that could impact compliance with Federal grant requirements. Additionally, departments of the City are unfamiliar with the details of the policy.

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

Documentation of Time and Effort

The School District charges salaries to grants based on a time study. The time study is done for a two-week period and is extrapolated to cover the whole 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. We were unable to verify that the salaries that were charged to Title I Grants to Local Education Agencies, Special Education Grants to States, Improving Teacher Quality State Grant, and Safe and Drug Free Schools Grant are appropriate.

The Vermont Department of Education did a review of the time study in fiscal year 2002. This resulted in numerous questioned costs. We were unable to determine if these issues had been resolved and corrected in 2004. These findings may affect Title I Grants to Local Education Agencies, Special Education Grants to States, Improving Teacher Quality State Grant, and Safe and Drug Free Schools Grant expenditures.

In addition, a school that participates in a schoolwide program and whose employees' compensation is funded solely from a combined schoolwide 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. An employee paid in part from a combined schoolwide program must maintain time and effort distribution records in accordance with OMB Circular A-87.

There were no procedures in place to ensure that the School District documents time and effort or certifies employees on a semi-annual basis during 2004. Subsequent to year-end, the School District began utilizing timesheets to document time and effort.

We recommend that the School District implement a system of controls to ensure that employees document their time and effort or do semi-annual certifications.