

Sullivan, Powers & Co.
CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL CORPORATION

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March 8, 2006

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

We have audited the basic financial statements of the City of Burlington, Vermont as of and for the year ended June 30, 2005 and have issued our report thereon dated March 8, 2006. 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 basic financial statements of the City of Burlington, Vermont for the year ended June 30, 2005 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 one (1) of the reportable conditions is considered to be material weakness.

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

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SCHEDULE OF FINDINGS AND REPORTABLE CONDITIONS
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REPORTABLE CONDITIONS:

Material Weakness:

Journal Entries

The School Department has not implemented procedures which requires review and approval of 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.

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:

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.

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.

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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 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.

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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, 2005. 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.

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 #.

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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. We noted, in a sample of sixty (60), thirty-two (32) transactions where there was no indication that the timesheet had been approved. Additionally, seven (7) timesheets were not able to be located.

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. We also recommend timesheets be filed in a manner in which they are readily available.

Voucher Approval

It is the City's policy to have vouchers approved by department heads prior to payment of the attached invoices. We noted, in a sample of sixty (60), five (5) transactions where there was no indication that the voucher had been approved. Additionally, the vouchers were not proofed in accordance with City policy.

We recommend that controls be implemented to ensure that all vouchers be approved before the payments are processed. We also recommend that vouchers be proofed.

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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, 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.

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.

Beach Gates:

- . 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.

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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.
- . 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.

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.

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Parking Garage Receipts

There was no written procedures manual on parking garage revenue available during the 2005 fiscal year. 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.

- . Several cashier reports were not fully completed.
- . Receipts are issued only to customers who request them.
- . Voided transactions are not consistently investigated.
- . There is limited review of transactions involving employee discounts, monthly passes, handicapped usage and hotel guest transactions.
- . Some documentation such as lane cash register tapes and parking tickets were destroyed rather than retained for accounting and auditing.
- . There is limited monitoring of how often keys are used to manually open the cash drawers.
- . There is no inventory of cars at the airport garage to track long-term parkers who lose their tickets.

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 procedures manual.

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.

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Other Recommendations:

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. During our tests of payroll, we noted employees that did not have a W-4 (one instance) and/or an I-9 (five instances) in their personnel file.

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

Billing and Collection of Grant Receivables

The CEDO Department had a negative \$620,000 cash balance within the City's pooled cash fund at year-end. CEDO has many grant receivables that could be collected to reduce this negative balance but billings and collections of these items are often very slow.

We recommend that CEDO implement more stringent billing and collection procedures for grant receivables in order to improve its cash flow situation.

Duplication of Effort

The Department of Public Works staff is tracking property, plant and equipment and the related depreciation on its computer system and with a manual system. Also, the Department of Public Works, Police Department, Fire Department and Telecommunications Department maintain their own accounting records on their own computer systems. The City's accounting staff records the same financial information on its Pentamation accounting system at City Hall. The maintenance of two (2) systems, which accomplish the same objective, is a duplication of effort.

We recommend that the City's Department of Public Works staff eliminate the use of the manual system for tracking property, plant and equipment and that all departments eliminate the use of separate accounting systems.

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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.

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 District. Although the size of these accounts are small, the School District should account for the activities of each account.

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

Employee Reimbursement Policy

The City 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.

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Payroll Processing

The City uses multiple payroll processing procedures. The City processes a portion of the payroll internally, outsources some departments to ADP and outsources one department to Paydata. We also noted that Paydata is using a separate federal identification number other than the one that the City has been assigned.

We recommend the City review these processes and consider consolidating to one system in order to increase efficiency and continuity.

School District 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.

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.

Uninsured/Uncollateralized Deposits

The City had more than \$100,000 in their money market accounts during the year and at June 30, 2005. 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.

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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.

Timely Deposits of Cash

The School District does not deposit cash for the student activity accounts on a daily basis. They hold the cash in a vault until they have time to make the deposit. In addition, the Treasurer's Office does not deposit the gross receipts tax proceeds on a regular basis.

We recommend that all cash be deposited on a timely basis.

Insurance Contract

There is no written contract with the Vermont League of Cities and Towns Property and Casualty Intermunicipal Fund (VLCT-PACIF). VLCT-PACIF provides insurance coverage to the City. The maximum contribution is based on an estimate of the total claims of all members at the beginning of the year. There are no provisions for changes as a result of significant growth or reduction of members.

We recommend the City enter into a written agreement with VLCT-PACIF that specifies the rights and responsibilities of both parties.

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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 it is adequate to cover all of its expenses including benefits and administrative costs.

System to Identify Additions/Deletions

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. This required more research and time for the accounting personnel to search the City's records to identify all purchases and dispositions.

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.

Investment Activity

The City Pension Fund holds and accounts for a large amount of investments. During the year, the City tracks the investments at cost.

We recommend the City record a monthly adjustment to record the change in market value of its investments.

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Accounts Receivable Review

The City's General Fund and Airport Fund have 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, and Airport fees.

We recommend the City review its accounts receivable lists and write-off amounts deemed uncollectible.

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.

Classification of Expenditures

The City records certain non-capital projects in capital outlay budget lines. An example of this is reappraisal expenditures. This overstated the capital outlay and understates another expenditure line item.

We recommend the City record all expenditures into an appropriate budget category.

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.

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Revenue Classifications

The City is required to report each governmental fund type revenue in one of four categories (charges for services, operating grants or contributions, capital grants or contributions, and general revenue). Currently, the City does not maintain an account structure that allows it to easily distinguish between the various types.

We recommend the City review its account structure and consider revising it to more easily distinguish between these types of revenues.

Capital Project Fund Accounting

The City opens new capital project funds each year. However, some of these funds are created after year-end in order to remove certain revenues (grants and long-term debt) and expenditures from the General Fund. The revenues and expenditures are then reported in the appropriate capital project fund. This causes many journal entries to be made subsequent to year-end.

We recommend the City establish capital project funds when projects are initiated or when long-term debt is received and post the activity to the fund during the year.

Student Activity Funds

The Student Activity Funds account for all the activities and the functions of the students at the School Department. These types of accounts are classified as agency funds. Agency funds generally are used to account for assets that the School District holds on behalf of the students as their agent.

The Student Activity bank accounts were not reconciled to lists of amounts owed to student groups for the entire year. We also noticed that other types of revenue are included in these accounts such as grant money, donations and payments from teachers to the wellness fund. These types of activities do not appear to be student activities and, therefore, should be accounted for in the General Fund or a Special Revenue Fund

We recommend the School District reconcile the Student Activity bank accounts to a list of student groups owed on a monthly basis. We also recommend that the School District take a close look at the various activities in the Student Activities Funds and, based on the above information, determine which activities should be in the Student Activity Funds and which activities should be classified and accounted for in other funds.

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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 the School Department implement a policy.

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.

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.

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

Telecommunications 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.

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

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City-wide Investment Policy

The City is required to disclose its investment policy and other restrictions on investments. Many departments of the City buy and sell investments during the year but it does not appear as though all departments have formal investment policies.

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

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.

Documentation of Time and Effort

The School District charges salaries to the Special Education Grants to States (IDEA-B) based on timesheets prepared by the employees. However, the timesheets are completed based on the budgeted staff allocations to the program. 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 Special Education Grants to States are appropriate.

We recommend that the School District complete timesheets based on actual time spent on a program.

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Special Education Grants to States Grant 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 \$300.00 or 10% of that item, whichever is greater, the grantee needs to amend the grant. The School Department had two line items over budget by greater than the allowed amount. Psychological Teacher Compensation was budgeted at \$30,000 and actual expenditures was \$34,254 and Benefits – Special Education was budgeted at \$57,000 and actual expenditures was \$75,050.

We recommend the School Department amend the grant budget when they make expenditures greater than the allowed amount.

Real Property Acquisition

The City did not obtain a review appraisal for real property purchased with funds provided by the U.S. Department of Housing and Urban Development Section 108 Loan Guarantee Program.

We recommend the City obtain a review appraisal whenever real property is being acquired through the use of Federal funds.

Documentation of Time and Effort

The School District charges salaries to the Improving Teacher Quality State Grant (IDEA-B) based on timesheets prepared by the employees. However, the timesheets are completed based on the budgeted staff allocations to the program. There are no procedures in place to be sure that timesheets are being completed based on actual time. Additionally, the timesheets are required to be approved and, in two (2) cases out of forty (40) tested, timesheets were not approved.

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

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Grant Budget to Actual Comparison

The School Department does not have controls in place to monitor compliance with the Special Education Grants to States budget or to request 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.

Review Appraisals

The City's Community and Economic Development Office (CEDO) does not have procedures to ensure they obtain review appraisals when acquiring real property.

We recommend the City's CEDO office implement procedures to ensure that review appraisals are obtained prior to purchasing real property with Federal funds.

Semi-Annual Certifications

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. The School Department implemented a process to obtain these certifications during 2005. However, we noted three (3) individuals who should prepare semi-annual certifications, out of forty (40) personnel tested, that only completed one (1) of the two (2) required semi-annual certifications.

We recommend the School Department improve its procedures to be sure that all certifications are being completed.

Subrecipient Monitoring Controls

The City Public Works Department does not have controls in place to monitor the activities of its subrecipients.

We recommend the City implement procedures to monitor subrecipients and verify that the subrecipient has complied with all relevant compliance requirements.

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Review of Supporting Documentation

The City prepares numerous schedules utilizing spreadsheets to calculate amounts recorded in the financial statements. Some of those schedules did not calculate the account balance properly due to errors in the formulas. These schedules included accrued compensated absences.

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

Review of Transfers/Budgets

The City General Fund budgets transfers to other funds. During 2005, a transfer to the Telecom Fund was not recorded until January, 2006. Due to the amount of this transfer, (\$432,673), the financial records of the General Fund were not accurate until after this transfer was recorded.

We recommend the City review its transfers and budgets to ensure that budgeted transfers are recorded in a timely basis.

Allowance for Doubtful Accounts

The City records an allowance for doubtful accounts for various receivable balances. Some of these allowances are not updated until significant time has passed since year-end. These items include the allowance for police fees, notes and loans receivable.

We recommend that the City review these accounts more frequently than once per year and that the balance be updated as soon after year-end as possible.

Reporting

The City has 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.

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

CITY OF BURLINGTON, VERMONT
SCHEDULE OF FINDINGS AND REPORTABLE CONDITIONS
FOR THE YEAR ENDED JUNE 30, 2005

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.

We recommend that the City review its expenditures to ensure that they have not charged the account for capital expenditures that were financed with debt.

Salary Allocations

The payroll charges for Burlington Telecom are being allocated between each of its different phases based on predetermined percentages. These payroll allocations should be based on actual time spent on each phase supported by approved timesheets.

We recommend that all payroll charges be spread to each phase based on approved timesheets.