

CITY OF BURLINGTON, VERMONT

Management Letter

For the Year Ended June 30, 2011

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To the Honorable Mayor
and City Council
City of Burlington
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In planning and performing our audit of the financial statements of the City of Burlington, Vermont as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Burlington's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

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timely basis. Material weaknesses are noted in the table of contents and comment headings.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Significant deficiencies are noted in the table of contents and comment headings.

During our audit we also 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 response to our comments and suggestions has 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, Major and City Council, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

Melanson, Heath + Company P.C.

Nashua, New Hampshire

March 15, 2012

Address Financial Challenges

1. Eliminate Deficit Balances

At June 30, 2011, the City's general ledger reflects the following funds with significant deficit cash balances:

• Telecom	\$ 16,936,492
• Wastewater fund	\$ 2,531,914
• Water fund	\$ 2,065,706
• Southern connector capital project	\$ 1,211,949
• Westlake garage capital project	\$ 621,031
• Waterfront access capital project	\$ 380,984
• Storm water capital project	\$ 273,264
• School project	\$ 1,134,096

Over the years, these funds "borrowed" cash from the general fund to pay applicable operating and capital expenses, resulting in balances owed to the general fund of \$ 25,155,436 at June 30, 2011, and a depleted cash balance in the general fund. This places the City at risk, as it is overly reliant on borrowing from financial institutions to provide overall City short-term cash requirements.

Also, because generally accepted accounting principles require that non-current receivables in the general fund be offset in a "non-spendable" fund balance, this has resulted in a deficit general fund "unassigned fund balance" (previously called unreserved fund balance) of \$ 16,790,895 at June 30, 2011.

A brief synopsis (excluding Telecom) of the reasons for the major cash deficits is below:

- Wastewater: results primarily from the payment of a \$ 4m bond in fiscal year 2011 that was not appropriated for and not raised in the user rates.
- Water: results from a continuing problem of revenues not being sufficient to finance all appropriations.

- Southern Connector Capital Project: results from a lack of request for reimbursement from State or Federal Agencies.
- School Capital Project: results from not issuing bonds to finance the project.

We recommend that the City adopt a formal documented plan to improve cash flow and to eliminate the deficit general fund unassigned fund balance. This will improve the financial condition of the City, and reduce the reliance on bank financing to meet normal cash flow requirements.

City's Response:

The Clerk/Treasurer's Office has implemented a different method of addressing its short-term cash needs including increasing the number of banks and other financial institutions with which we do business, utilizing different financial mechanisms such as Lines of Credit and Grant Anticipation Notes and have developed cash budgets for each fund within the cash pool to better manage the City's cash needs. In addition, we have developed a cash management plan that outlines the reduction to short-term cash reliance over a three-year period (FY 2012 - FY 2014). This plan includes:

- In Fiscal Year 2013, we will adjust our water and wastewater rates to ensure that our fund balances within those funds are positive.
- The City of Burlington has made great strides in bringing requests for reimbursement for the Southern Connector Capital Projects and other Capital projects and will continue to ensure that moneys owed to the City are received in a timely manner. In Fiscal Year 2012, the amount of reimbursements received from prior fiscal years exceeded \$ 2 million.
- On February 7, 2012, the State of Vermont authorized the City to issue bonds in an amount of \$ 1.25 million for a capital project undertaken in 2011.
- The Office of Clerk/Treasurer will continue to prepare monthly cash flow reports and will continue to monitor its cash daily for its general fund as well as its corollary services, including the Airport.
- The City's Capital Improvement Plan now identifies specific sources of funding, including the planned use of reserves or other "pay-as-you-go"

sources, as well as planned debt issues. In addition, we have adopted a new policy that we will finance first, and spend last.

- Because capital planning is an essential component of the City's overall debt issuance and cash financing program, the Office of Clerk/Treasurer has developed and will continue to utilize a credible long-term financial plan which addresses funding for its forecast capital projects, and has balanced both short-term, and long-term debt resulting in significant savings to the taxpayers in interest expense.
- The following chart represents a portion of the financial plan utilized to determine cash needs and the most appropriate financial mechanism to use.

FY 2012 City of Burlington, Vermont Debt Borrowings	
On July 1, 2011, the Electric Department issued a \$ 5,000,000 revenue anticipation note payable to TD Bank, N.A. The note is due June 30, 2012	Annual borrowing to meet Department cash flow needs. This deal was replaced in January with a Line of Credit at a reduced rate from the note. The savings to BED is approximately \$ 100,000, and improves the City of Burlington's cash position at year-end by approximately \$ 5 million.
On July 1, 2011, the Wastewater Department issued a \$ 1,000,000 revenue anticipation note payable to TD Bank, N.A. The note is due September 30, 2011.	Annual borrowing to meet Department cash flow needs
On August 9, 2011, the City issued \$ 6,575,000 General Obligation Bonds , Series 2011A. The debt matures November 1, 2031.	Refunding outstanding BANs which financed various capital improvements (\$ 1,000,000), General Fund Street Repaving (\$ 3,250,000), General Fund Fire Trucks (\$ 1,325,000) and Electric Department (\$ 1,000,000)
On August 18, 2011, the City issued a \$ 5,000,000 Grant Anticipation Line of Credit to Northfield Savings Bank for the benefit of the Airport . The note is due June 30, 2012.	Provides interim cash flow prior to receipt of AIP reimbursements. The interest on this deal is reimbursed in full by the Federal Aviation Administration.
On August 25, 2011, the City issued \$ 4,000,000 General Obligation Bonds, Series 2011B The debt matures November 1, 2031.	Financing various capital improvements (\$ 1,000,000), School Department (\$ 2,000,000) and the Electric Department (\$ 1,000,000).
On August 31, 2011, the City issued a \$ 18,000,000 revolving line of credit, to KeyBank. The note is due June 30, 2012.	Provide additional liquidity for the City General Fund. The interest on this deal is 2.5%, compared to the Note of 4.5%. The savings to the taxpayers on this deal exceeds \$ 400,000 in one year.
On October 13, 2011, the Electric Department issued a \$ 11,910,000 Revenue bonds 2011 Series A is for \$ 8,775,000 and 2011 Series B is for \$ 3,135,000. The debt matures July 1, 2023.	Financing various improvements to the City's electric plant, and funding the Debt Service Reserve Fund for the current issue. This deal ensures less reliance on pooled cash.
On October 18, 2011, the City entered into a capital lease agreement with JPMorgan Chase Bank for \$ 1,257,403.	To finance Fiscal Year 2011 capital purchases. Lease repayments are made over a five year period.
On November 21, 2011 the City issued a \$ 5,000,000 General Obligation Revenue anticipation note for the benefit of the Airport Division payable to TD Securities. The debt matures June 30, 2012.	To carry \$ 6.9 million AIP receivables. This note will be paid by Airport's cash flow.

2. Establish a “Sinking Fund” when Balloon Payments are Utilized (Compliance Finding)

The City had a \$ 4m wastewater bond “balloon” payment that matured during fiscal year 2011 and has an additional \$ 14m bond “balloon” payment which matures in fiscal year 2014. The \$ 4m bond was paid in fiscal year 2011, although no appropriation for the payment was available. The City’s Charter requires appropriation for all expenditures, including debt service. Also, the wastewater fund did not have sufficient reserves to support this payment, resulting in a wastewater fund cash deficit of \$ 2,531,914 at June 30, 2011.

The City management has indicated that it plans to refinance the \$ 14m bond prior to maturity for an additional 20 years as it appears the original intent of the resolution was to finance the project over a 40 year period. During the first 20-year period of the bond; however, no funds were raised through the wastewater rate in order to set monies aside for repayment either in full or in part. As a result, the full amount of the bond will actually be repaid over the next twenty years rather than leveled payments over a 40-year period as outlined in the original resolution.

We recommend that the City establish a “sinking fund” in order to raise the funds needed for future balloon debt repayment over the life of the bond. This will result in improve matching of repayment expenditures with revenue generated from the system’s users. Additionally, implementation of this recommendation will decrease the risk that an entire balloon payment needs to be paid in a single fiscal year which would result in either a negative cash situation or a significant rate increase in a single year.

City’s Response:

In December of 2010, the \$ 4 million debt of the Wastewater Fund matured. This debt was a zero interest loan from the State of Vermont used originally to finance the capital improvements to the City’s sewage collection and treatment system in the late 1980’s and early 1990’s. It was originally anticipated that the balloon payment would be refinanced. This refinance was approved to be appropriated upon maturity by City Council and the voters.

The City repaid this loan to the State of Vermont using cash on hand between the Wastewater Fund and pooled cash in lieu of refinancing this debt with a new bond issue as authorized by the voters. The City chose not to refinance

the balloon payment because it has been projected that the wastewater fund will be able to reimburse the pooled cash fund by the end of FY 2014. In order to memorialize the reimbursement, the Wastewater Department will sign a commitment letter to that effect.

Improve Overall Control Structure

3. Consider Segregating the Accounting and Treasury Functions (Material Weakness)

The City Charter establishes that the Clerk/Treasurer is responsible for cash management as well as accounting and financial reporting. This results in a single position/department being responsible for all components of the City's financial management systems, including (but not limited to):

- Treasury management
- General ledger maintenance
- Bank account reconciliations
- Journal entry approval
- Posting annual and capital budgets to accounting system
- Budget and actual monitoring

As a result, a lack of segregation of duties exists, as a single position is capable of controlling all elements of transactions, thereby increasing the risk of errors and irregularities occurring and going undetected. Sound internal controls dictate that most of the above noted functions be performed and monitored by separate individuals/departments.

We recommend that the City consider segregating the accounting and treasury functions in order to create an environment that properly segregates the City's financial management systems. We understand that this recommendation must be carefully considered and may take time to implement; therefore, we recommend the City immediately implement an internal auditing process (see Comment 7) to mitigate the risks associated with this lack of segregation of duties.

City's Response:

The City Charter of the City of Burlington specifies that the Chief Administrative Officer serves as and has all authorities of the City Treasurer. Within this framework, the City has created a system of checks and balances and internal controls that provides for the segregation of duties to include the following:

- All general ledger, journal entries, and posting of budgets and monitoring have been segregated to two levels of authorization. The general ledger, journal entries must be written by finance staff, and approved by a Senior Accountant, Chief Accountant or the Assistant Chief Administrative Officers (CAO). Vouchers have been segregated to three levels of authorization. The vouchers must be written by staff, approved by a department head, and the Chief Accountant or the Assistant Chief Administrative Officers (CAO).
- Bank Management and access to cash requires two levels of approval necessary for a transaction. The employee entering the bank transaction has to have it released by another employee. Access to banking accounts is limited based on job needs. In addition, all transactions must be approved either by the Chief Accountant, the Chief Administrative Officer (CAO) or the Assistant Chief Administrative Officers (CAO).

4. Develop a More Formal Risk Assessment Process (Material Weakness)

Risk assessment is a management function designed to identify where an organization may be vulnerable to errors and/or irregularities. The City informally performs its own risk assessment for possible fraud or material misstatements through various discussion, policies and procedures, and regular reviews of trends in the financial statements. A more formal and complete risk assessment process involves a written description of risk areas identified by those charged with governance (management and elected officials) and a description of how the organization intends on responding to the risks. Specific monitoring activities to address these risks should be documented and implemented as well.

We recommend that the City implement a more formal risk assessment process that includes written identification of areas where potential fraud or material misstatements to the basic financial statements may occur, as well

as how the City intends to respond to those risks, including ongoing monitoring activities. This will help minimize the risk of errors or irregularities occurring and going undetected.

City's Response:

The Office of Clerk/Treasurer will start discussions with departments to identify potential risk and fraud. We will then work to identify what controls we have in place to mitigate these risks. We will implement new controls as needed. The risk assessment process will be an on-going improvement process.

5. Document Internal Control Components (Material Weakness)

The City has certain written internal control policies and procedures; however, they do not formally address the required components of internal control as outlined by the COSO model. The COSO (Committee of Sponsoring Organizations of the Treadway Commission) model is widely recognized as the standard against which organizations measure the effectiveness of their internal control systems.

We recommend that the City document its internal control procedures in accordance with the COSO model. The components of effective internal control are: Internal Environment, Objective Setting, Event Identification, Risk Assessment, Risk Response, Control Activities, Information and Communication, and Monitoring.

City's Response:

The Office of Clerk/Treasurer will adopt the COSO model as part of the implementation of our new accounting software package. This is a continuous process of improvement, and will be implemented organization wide.

6. Limit Access to the City's General Ledger (Material Weakness)

During our review of the internal controls over the accounting system, it was determined that the City has not recently reviewed which employees of the Clerk/Treasurer's Office currently have or should have access to the different components of the automated accounting system. This is particularly significant since the Department has recently undergone many changes to employ-

ees' job responsibilities. As a result, employees may be assigned access to components of the accounting system that may be incompatible with their present job description, resulting in a potential lack of segregation of duties.

We recommend (as part of the implementation of the new financial management system) the City thoroughly review all employees' job descriptions to ensure that permission levels assigned in the new system are appropriate, given the current job descriptions. We further recommend that the City establish a policy whereby any change to an employee's job description occurs in conjunction with management's review of permission/access levels assigned.

City's Response:

The Office of Clerk/Treasurer received approval to purchase a new financial management system, which has been installed, and is being implemented. As part of the implementation of the financial management system, we will complete a comprehensive review of all users to ensure proper permission levels are established. We will establish and train Systems Administrators, who will restrict certain users to specific screens, based on the level of security associated with their current job description, and ID. We will document our new policy that limits access to the City's General Ledger.

7. Implement Regular Internal Audits (Material Weakness)

Currently, the City does not perform regular departmental internal audits. Internal audits compliment the annual independent audit and provide important oversight over departmental accounting records throughout the year. Specific internal audit steps should include, but not limited to:

- Cash receipt monitoring at various decentralized collection sites
- Gross receipt collections
- New vendor verifications
- Cellphone and credit card monitoring
- Grant activity allowability
- Compliance with applicable City policies and procedures
- Petty cash handling

We recommend the City's Accounting Office establish a schedule for periodic internal audits of the City's departmental accounting records. This will result

in improved oversight and should reduce the risk of errors or irregularities occurring and going undetected.

City's Response:

The Office of Clerk/Treasurer has reviewed the issues identified with the finance team.

Currently, the City of Burlington is implementing a new financial package and does not have enough staff to perform internal audits of other departments, vendors, or merchants. We have implemented several new policies that have accomplished its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. As time allows, we will conduct periodic internal audits with a focus toward areas of the highest risk.

Enhance Financial Reporting

8. Improve Monitoring of Capital Projects (Material Weakness)

The City has not adequately monitored the activity of the various capital projects funds. As a result, several funds ended on June 30, 2011 with negative cash balances caused specifically by a 1) lack of, or untimely request for reimbursement from State or Federal agencies, 2) authorized projects not being borrowed (i.e. bonded), or 3) projects originally financed with a long-term receivables that should provide cash over the next 10 years. Historically, we understand the City has tracked the status of the capital projects on various spreadsheets that were updated as activity occurred; however, the spreadsheets were not updated during fiscal year 2011.

We recommend the City identify causes for all negative cash balances in capital project funds. To accomplish this, we recommend that the City use the general ledger (not spreadsheets) to maintain a complete accounting of all capital projects. Specifically, complete budget and actual (fiscal year and life to date amounts) should be tracked against the approved project budgets. Controls should also be in place to ensure budget amendments (generally grant related from State agencies) are approved and posted to the budgetary accounting system prior to incurring the actual expenditures. Implementation

of this recommendation will provide the City with a complete and up-to-date status of all capital projects.

We further recommend the City identify funding sources to eliminate all negative cash balances in the capital project funds to provide repayment to the general fund.

City's Response:

The acquisition and implementation of the new financial management system has a Project Accounting Module (PAM) to help manage multiple projects, ensuring jobs are completed on time and within budget. The PAM software module will be used to track and account for all transactions related to special projects or programs. Authorized personnel will be able to view all levels of detail and actual monies spent on each project. We will be able to track the status of a project, track both expense and revenue accounts, provide YTD or LTD information, compare actual to budget, and ensure all projects have a funding source.

9. Improve Airport Capital Appropriation Monitoring (Material Weakness)

The Airport Enterprise Fund does not maintain a budget and actual report to monitor the annual capital appropriation. In addition, our audit disclosed approximately \$ 1m in capital costs that were ineligible for reimbursement under the FAA's Airport Improvement Program, and therefore, were essentially funded by the annual appropriation. Without a complete budget and actual comparison report, we were unable to determine if sufficient appropriated funds were available. We recognize the difficulty of budget and actual accounting when the budget is established on the modified-accrual basis of accounting and the actual results are required to be on the accrual basis of accounting; however, monitoring of the amounts appropriated remains an essential control function.

We recommend that the City implement controls to monitor the Airport's annual appropriation for the capital appropriation, similar to the current monitoring and oversight of the operating budget. This will help ensure that expenditures are not incurred in excess of available appropriation.

City's Response:

In the future, with the implementation of the new financial management system, the City will budget all capital projects, regardless of their source of funding and regularly produce budget performance reports to ensure that revenue and expenses fall within expectations. Capital projects will be properly identified upon their creation as to whether they are federally funded or locally funded. In addition, permission to utilize restricted funds for capital improvements such as from the Passenger Facility Charges (PFC) program will be obtained in advance of the start of the project. Finally, as mentioned previously as it related to capital expenses, we have adopted a new policy that we will obtain all necessary approvals and identify financing prior to the start of any capital project.

10. Revise Procedure for Grant Accounting

The general fund is currently used by the City to account for many activities that would be more appropriately accounted for as special revenue or capital project funds. Specifically, City grants (other than CEDO which is tracked in a special revenue fund) and the City's appropriation for projects funded by the annual bond issuance (typically about \$ 2m) are accounted for in the general fund. As a result, the monitoring of results of operation compared to estimated amounts is substantially more difficult.

We recommend that the City establish a separate grant fund to track all non-CEDO grants, and a separate capital project fund for each annual bond issuance. Implementation of this recommendation will simplify overall financial reporting and monitoring activity, and perhaps could accelerate the year-end closing process. This recommendation should be implemented with the establishment of a new chart of accounts for the new financial management system.

City's Response:

The City's new financial management system is designed to track the expenses and revenue of grants through its grant management module without the need to establish a separate fund for each project. Where appropriate and necessary, separate funds will be created based upon the reporting requirements outlined in the grant. To implement the recommenda-

tion of the auditor would unnecessarily complicate the City's chart of accounts.

11. Utilize a Fixed Asset Accounting System (Material Weakness)

The City maintains most records of capital assets on electronic spreadsheets. As a result, the process required to maintain the data is overly complicated and annually requires revisions to formulas, to accurately reflect year-end balances. Additionally, the use of spreadsheets does not provide an adequate audit trail over changes to the records. We also noted that the City does not have a written capitalization policy to ensure consistent accounting treatment.

We recommend that the City purchase and implement software to maintain the historical cost and depreciation of capital assets, and develop a written capitalization policy. This will streamline and provide improved reporting over capital assets, will help accelerate the year-end closing process, and will improve the calculations of annual depreciation.

City's Response:

In Fiscal Year 2013, the Office of Clerk/Treasurer will install and implement software to maintain historical cost and depreciation of capital assets. We will document our new written capitalization policy. The New World software has an asset-management module that is a complete asset maintenance system with depreciation schedules and classifications. In addition, the system provides a City-wide inventory of all assets and has full integration with the general ledger application, automatically posting data to the appropriate account. The fixed asset module will eliminate the use of manual spreadsheets, and will provide an audit trail for changes made to all records.

12. Accelerate Closing Process (Material Weakness)

The City does not have a formal (written) policy on closing the general ledger at fiscal year-end. As a result, the process has been delayed as management continued to post journal entries as late as six months after year-end. While we recognize that recent retirements and other employee absences contributed to the delay, the timeliness of financial reporting is essential.

We recommend that the City develop formal closing procedures that should include a checklist to document who will perform each procedure, when completion of each procedure is due, and when it was actually accomplished. This will help to ensure that the year-end closing and reporting process proceeds more timely and efficiently.

City's Response:

The Office of Clerk/Treasurer has made great strides in shortening the time to close its books monthly and year-end, but agrees we need to reduce and streamline the time required to close the books.

We agree that the two most likely sources for saving time are processes (both design and execution) and use of technology. The Clerk/Treasurer's Office will develop specific goals and timelines for accounting staff to achieve a quicker year end close. It is anticipated that, through the implementation of a new financial management system, the act of closing the fiscal year will be significantly less intensive and time consuming. In addition, we established a finance department culture of continuous process improvement that has helped address issues that delay the close, and improve the department's efficiency in other ways as well.

13. Improve Cut Off of AIP Grant Receivables and Timeliness of Reimbursement Requests (Material Weakness)

For fiscal year 2011, we noted the following weaknesses regarding the Airport Improvement Program (AIP) grants:

- A clean cut off of Airport Improvement Program (AIP) grants was not performed at June 30, 2011. This complicated and delayed the calculation of the year-end grant receivable balance, contributing to the overstatement of the receivable of approximately \$ 1m.
- Request for grant reimbursements were not submitted in a timely manner, resulting in the need for increased short term borrowing.
- Expenses were charged to AIP grants prior to the FAA's formal grant approval, increasing the risk of unreimbursable expenses occurring.
- Excessive journal entries were made to transfer project costs between the various funding sources (i.e. AIP Grants, PFC Revenues and the

annual capital appropriation) resulting in the risk that revenues may be improperly recognized, and internal budget and actual comparison schedules may not be accurate. See related comment Number 8 “Improving Monitoring of Capital Appropriations”.

We recommend that the City implement year-end cut off procedures over the AIP grants to address the weaknesses noted above. This will improve the accuracy of grant receivable balances, as well as the internal monitoring reports of AIP grants, PFC revenues and the annual capital appropriation.

City’s Response:

As previously mentioned, the implementation of the City’s new financial management system will allow for better controls over Capital projects through grant management and capital budgeting. The system will be designed to establish a hard cut-off for recognizing expenses and revenue. In addition, as previously mentioned, the City has adopted policies to prevent the start of capital projects without first obtaining all necessary approvals from funding entities. The Office of Clerk/Treasurer will further design and maintain internal controls that ensure projects are better managed.

Our internal audit procedure will include:

- Review and test for compliance with applicable federal compliance requirements.
- Review detail ledgers and project reports for the Airport Enterprise Fund.
- Review payment requests and federal cash transaction reports, and review other activities as deemed appropriate.
- No expenses will be paid prior to approval, and all future expenses will continue to be submitted in a timely manner.

14. Improve the General Ledger Chart of Accounts

The current chart of accounts is limiting the City’s ability to produce essential reports needed for timely reconciliations as well as producing complete interim financial reporting. The following account reconciliation and financial

reporting functions were significantly impacted by deficiencies in the chart of accounts:

- Transfers between funds are only reconciled at year-end because the movement of monies from one fund to another is often posted between a transfer account and an expenditure account rather than two specific (offsetting) transfer accounts.
- Debt service and capital expenditures are difficult to identify, complicating reconciliations between budgetary basis reports and reports generated in accordance with generally accepted accounting principles.
- A substantial number of spreadsheets are maintained in order to track department (or division) specific activity. This situation exists not only in the Clerk/Treasurers' office but at the Airport and CEDO as well.
- The chart of accounts is not designed to monitor enterprise fund capital activity.

We recommend that the City consider these factors when designing the chart of accounts for the new financial management system. A well-designed chart of accounts will reduce the amount of manual spreadsheets that are needed to reconcile accounts and provide interim financial reporting.

City's Response:

The City is currently conducting an in-depth review of its entire chart of accounts to include assets, liabilities, expenses and revenue and all of the components within the chart of accounts from Funds to object codes, as part of the implementation of the new financial management system. We have relied upon the best practices of numerous customers utilizing the software we have purchased. This has resulted in a less complicated and more logical chart of accounts that will ensure that all aspects of the City's finances can be reported in a clear and concise manner.

Other Issues

15. Improve Controls over CEDO Special Revenue Fund Activities (Significant Deficiency)

Currently the Assistant CEDO Finance Director is responsible for collecting loan repayments, updating loan repayment schedules, and making deposits to the bank. This results in a lack of segregation of duties, increasing the risk of errors or irregularities occurring and going undetected.

We also noted that the Department issues manual checks to pay vendors and to reimburse the City. These manual disbursements bypass the City's normal vendor AP process and typically are not posted to the CEDO general ledger until the subsequent month. Similarly, we noted that certain loan repayment receipts are not reported in the CEDO general ledger until the subsequent month. These situations weaken controls and oversight over CEDO activities, and results in inaccurate general ledger records.

We also noted that the Department does not record receivable activity in the general ledger until year-end, and therefore does not perform regular interim reconciling of receivable schedules to the general ledger.

We recommend the City (1) reevaluate the job responsibilities of the Assistant Finance Director to assure an adequate segregation of duties exists, (2) discontinue the use of manual checks, (3) post all receipts and disbursements in the general ledger immediately, (4) record receivable activity in general ledger throughout the year, and (5) perform regular monthly reconciliations of general ledger receivable activity of general ledger receivable activity. This will improve controls over CEDO activity and will improve the accuracy of general ledger records.

We also recommend the CEDO fund chart of accounts segregate "loans received in advance" from "deferred revenue", and discontinue the tracking of loan allowances in a separate fund 3001, but instead track with the applicable general ledger receivable accounts. This will simplify the accounting and reconciling of general ledger receivable and corresponding deferred revenue accounts.

City's Response:

Deposits are made to the bank by either the Assistant Director for Finance or the Financial Assistant in CEDO. Bank statements are reconciled monthly by the Financial Assistant and reviewed by the Assistant Director for Finance. Thus, two staff interacts and addresses this deficiency.

CEDO maintains a special procurement system for the HOME and CDBG programs, a federal requirement. This system is the HUD Integrated Disbursement & Information System (IDIS). The Assistant Director for Finance is registered with the system and is identified as the person who can request and withdraw HUD funds. IDIS restricts access by federal rule. The funds are wired to CEDO's various bank accounts, and a manual check is prepared to be deposited to cover any vendor payments or transfers. We will explore the new accounting system and its ability to process automated checks from multiple bank accounts. All receipts are deposited and recorded as revenue when received.

An accounts receivable tracking spreadsheet is maintained and reconciled throughout the year. A journal entry is prepared for accounts receivable general ledger balances at year-end.

In the future, the City will explore the feasibility of managing and reconciling the Special Revenue Fund activities, deposits, and check issuance and of the CEDO Department through the Clerk/Treasurer's Office. If this proves to not be practical or allowable under Federal regulation, then the Assistant Chief Administrative Officer for Finance will conduct an annual internal audit of the financial activities of the Director and Assistant Director to ensure to the appropriateness of all transactions.

16. Improve Segregation of Duties for Utility Activity and Documented Oversight

The Utility Coordinator of the City's Water, Sewer, and Wastewater funds currently is involved in customer billings, collections, and general ledger postings. Also, the documentation to support daily receipt cash outs does not include signatures of all staff involved in the counting, reconciling, and oversight process. These situations increase the risk of errors or irregularities occurring and going undetected.

We recommend the City reevaluate the job responsibilities of the Utility Coordinator to assure an adequate segregation of duties exists. We also recommend that all personnel involved in the daily cash out and oversight sign off on the cash out forms, that copies of the cash register “Z report” be included in the turnover package to the Treasurer/Clerk, and that a Treasurer/Clerk signed copy of the turnover form be retained by the Water/Sewer/Wastewater Department. This will improve controls and documented oversight over the customer billing and collection process.

City’s Response:

Water Customer Service has a logbook which details the date and initials of the Customer Service Representative (CSR) who was responsible for balancing the register close out on any given day. To improve oversight, we will have the person accountable for taking in register payments initial the stub to show they processed it. This action will increase responsibility given our register does not require a unique access code to enter a payment.

Currently, the daily report to the Office of the Clerk/Treasurer includes the individual batch tally sheets detailing check amounts processed and is filled out and signed by the CSR that balanced the daily payments against our billing software reports. To increase individual responsibility, we will have each CSR sign their batch tally, which indicates, which checks they processed and posted. Additionally, the Utility Billing Coordinator will inspect the copy of the daily report to Clerk/Treasurer and associated backup paperwork for irregularities. Additionally, the Assistant Director of Water Quality will continue to provide further oversight through month-end reviews. The random deposits chosen for spot check will be initialed, and at least four per month will be chosen. We will begin including a copy of the Z report with our turnover package to the Clerk/Treasurer.

17. Improve Controls over Church Street Marketplace Fund

One individual is currently responsible for issuing permits, maintaining receipts, accepting customer collections, and preparing receipt turnovers to the Treasurer/Clerk. This results in a lack of segregation of duties increasing the risk of errors or irregularities occurring and going undetected. We also noted that there are no procedures in place to reconcile revenues to the general ledger.

We recommend the City reevaluate the job responsibilities in the Church Street Marketplace fund, and at a minimum, improve the documented oversight of customer billings, adjustments, and collections. We also recommend the Department document the reconciliation of revenues to the general ledger on a quarterly basis. This will improve controls over marketplace revenues and receipts.

City's Response:

Through the implementation of the new financial management system, the Office of Clerk/Treasurer will implement a new accounts receivable ledger for the Church Street Marketplace beginning in FY 2013.

18. Reconcile Pension Fund General Ledger

Although the City maintains various subsidiary reports to track member contributions, pensions paid, and refunds paid, we noted that they are not regularly reconciled to the Pension Fund general ledger. This increases the risk of errors or irregularities occurring and going undetected.

We recommend the City establish procedures to reconcile the detail member contributions report, pensions paid report, and refunds paid report to applicable general ledger revenue and expense control accounts on a quarterly basis. This will improve oversight and will help assure the accuracy of the general ledger information.

City's Response:

The Office of Clerk/Treasurer agrees to this finding, will establish procedures, and reconcile accounts on a quarterly basis.

19. Automate Pension Fund Member Files

The City's pension fund member files and member ledger are currently maintained manually. This increases the risk of loss of critical information in the event of a disaster at the retirement office facility.

We recommend the City consider automating (or at a minimum scanning) the member files and member ledger, and retaining a copy offsite. Automating

the records may improve efficiencies, and retaining files offsite will help assure critical information is not lost in the event of a facility disaster.

City's Response:

The Office of Clerk/Treasurer has a "general ledger" book that contains history since the 1950's. We will scan this document, and will work to recreate this information to be tracked in an electronic format. It is the City's intention to utilize the new Human Resource management system to track all aspects of the City's retirement system including member files and ledgers.