**CITY OF BURLINGTON, VERMONT**

Management Letter

For the Year Ended June 30, 2020

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To the Honorable Mayor

and City Council

City of Burlington

149 Church Street

Burlington, VT 05401

In planning and performing our audit of the basic financial statements of the City of Burlington, Vermont as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the City’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified.

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

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

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

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

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

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

\_\_\_\_\_\_\_\_\_\_\_, 2020

1. Improve Controls Over Journal Entries and Adhere to a Formal Closing Schedule (Prior Year Comment)

During our audit, we observed improvements over journal entries related to year-end closing. Although enhancements have been made, we continue to see untimely entries. Specifically, the City did not record the proceeds of the sale of Burlington Telecom in the general ledger until the summer of 2020. This was the entry proposed during the fiscal year 2019 audit. Additionally, in March 2020 the City appropriated $1,000,000 from the sale of Burlington Telecom toward the costs of addressing the COVID crisis. The transfer was not done until October 2020. Accurate and timely statements provide key data to support fiscal monitoring.

Further, the City’s Enterprise funds, have reporting requirements under General Bond Resolutions that require annual audits to be completed between 150 – 270 days after the end of the fiscal year. For the City to comply with these reporting requirements the City must adhere to a formal closing schedule; specifically, as it relates to fixed asset reporting on accrual basis.

We continue to recommend that the City regularly review all general ledger accounts monthly. Implementation of this recommendation should result in earlier identification of the need for entries, improved internal reporting, and will streamline the year-end closing process. Finally, we understand the City has taken action to search for a higher-level accounting personnel in the Clerk Treasurer’s Office. The addition of this accounting personnel will assist the City in ensuring a timelier year-end closing and will help address the other items noted in this Management Letter.

City’s Response:

The Clerk/Treasurer’s Office (CTO) acknowledges that journal entries were not posted in a timely manner for the COVID-19 budget amendments and this is an important area of improvement. The CTO uses a modified accrual accounting method that is required for the fund basis financial statements for governmental funds for municipal entities. This method combines accrual basis accounting with cash basis accounting. This method recognizes revenues when they become available and measurable and, with a few exceptions, when liabilities are incurred. This method results in many accounts that cannot be reconciled until 60 days after the fiscal year ends, which creates a very small window of time available to reconcile the City Accounts. This leads to a bottleneck of work to complete at year-end. The CTO currently lacks sufficient senior staff needed to complete these tasks as identified by our auditors however is currently recruiting. The City has taken steps to identify key accounts that are reconciled monthly, and this has improved our year-end closing process, but is insufficient to perform many tasks in a timely manner.

In addition, the CTO is responsible for producing Fixed Asset (FA) schedules for the Enterprise Funds, including the Airport and the Water Resources Department. Currently, the City has to communicate with all departments to verify whether a project is complete or is a work-in-progress. This is a significant workload for the CTO as it is necessary to compile the status of hundreds of assets, which is often dependent on timely responses from all departments to complete this task. Historically, the departments we rely on have also struggled to meet our required deadlines to produce the required reports.

To address these concerns, the City is working to secure a new Fixed Asset system to help better manage our FAs which will require that respective departments update asset information in a timelier manner and will allow us to determine if a project or asset is a work-in-progress or if the project is complete and should be booked as a FA. We will also provide city-wide training to better manage this process at the department level. We are considering using an outside consultant to verify and audit our existing process and make recommendations regarding facility closing of FAs in 75 days after fiscal year close. This will demonstrate that the FA are reconciled in a timely manner that allows for closing of the Enterprise Funds Financial.

Improve Capital Project Accounting (Prior Year Comment)

The City’s general ledger for capital projects is operating on a limited number of general ledger funds, with detail being accounted for through a project accounting module. Project accounting life to date income statements from the system do not fully reconcile to their share of fund balance in the general ledger. This resulted in additional manual reconciliations through Excel spreadsheets, which are not reconciled timely. As a result:

* The status of individual projects is not readily available.
* A significant amount of journal entries are processed by the City.
* Allocating issuance of debt by project and determining unspent issuance of debt by project is a difficult and a complicated process.

Enhancing the capital project accounting will assist with the City’s review of deficit fund balances. During our initial review of the City’s various Capital Project funds we noted several funds were in deficits. The City should monitor all funds for deficit fund balances and ensure all funds have proper funding sources.

We continue to recommend that the City perform an in-depth analysis of the project accounting records to be able to produce the life-to-date reports for each individual project that are meaningful and reconcile to the general ledger. Implementation of this recommendation will provide the City with the necessary framework for more complete capital project financial reporting.

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

City’s Response:

The City has hired CLA, LLP, to implement a new project accounting process and tracking procedure, and they started work in April 2020.  CLA, LLP has recently completed the reconciliation of project costs incurred through June 30, 2020 against the various financing sources, as recommended by our auditors.  Beginning in FY21, the City is using a new project and General Ledger (GL) account structure that allows the City to track the balances spent against each project, the source of funds, and where excess funds should be returned.  The new procedures are also set up to track these projects on a life-to-date basis, which will enable the City to have a much better view of the true cost of major capital projects.  Finally, this new process will also track the bond proceeds at a very detailed level. The City will be able to trace bond proceeds to specific projects, and also know the unallocated portion of each issuance, at any given time.  Unspent proceeds will be returned to the bonds for re-allocation upon the completion of a given project.

1. Address Finding in the Agreed Upon Procedures over Pension Plan Report

In June of 2020 we performed an *Agreed Upon Procedures* over the City’s Pension Plan that resulted in several findings. During our testing of the accuracy of the underlying census data we noted several inconsistencies between the underlying data and the supporting documentation. We also were unable to obtain original source documentation to support twelve of the forty employees tested.

We recommend that going forward that the City collect and compile source documentation for underlying census data. Implementation of this procedure will strengthen the City’s internal controls surrounding the Pension Plan.

City’s Response:

The Clerk/Treasury Office agrees that the accuracy of the census data noted several inconsistencies between the underlying data and supporting documentation. The Human Resource Department verifies key information at the date of hire of a new employee and in the existing process this information is not saved or backed up to the employee’s file. Our auditors noted that original source documentation which consists of documentation that establishes the date of birth of the employee and spouse were not available. This information is critical in determining the future retirement benefit. A new process was implemented on December 1, 2020 where the source documents are copied for the employee at the date of hire.

The Retirement Department has demonstrated that when a City employee is ready for retirement, all required backup data exists and all calculations are in good order. With respect to the request to outline the new retirement process to ensure proper documentation, our portal has sourced documentation and internal controls. The Retirement Department has put in place Standard Operating Procedures that include three documents: Benefit Election Process Form, Burlington Forms Audit Checklist, and the Burlington Return of Contributions Audit Checklist.

1. Improve System of Identifying Federal Awards

The City is required to prepare a Schedule of Expenditures of Federal Awards (SEFA) each year as part of the Single Audit requirements. The SEFA reports the total Federal awards expended for the fiscal year being audited, by program name and Catalog of Federal Domestic Assistance Number (CFDA). The SEFA must also indicate if the funds were received directly from a federal agency, or if applicable, the pass-through entity’s name. The City expends several million dollars in Federal funds each year from a variety of programs. As of early November 2020, the City had not compiled a complete and accurate Schedule of Expenditures of Federal Awards to determine major programs. A designated individual should be appointed for the tracking of all Federal grants.

We recommend that the City establish procedures to ensure the completeness and accuracy of the Schedule of Expenditures of Federal Awards.

City’s Response:

In all past years, the SEFA report was compiled and submitted following the conclusion of the Citywide audit, typically in December. The City proposed moving this deadline up to October 31st for FY20 to allow even more time to meet the March 31, 2021 Federal government deadline. This task was completed later than expected, at the end of November 2020.

In order to establish procedures to ensure the completeness and accuracy of the SEFA, the City proposes a number of system improvements. First, the City will designate an individual to serve as the City Federal Grant coordinator. Second, the City will retain the consulting group CLA, LLP to coordinate the grant module and the project accounting module, so as to work together, to strengthen the Single Audit (grant) reporting. This will require involvement from various City divisions, including DPW, Parks, Airport, CEDO, and C/T, to make sure that all costs are captured in real time. Furthermore, this module will allow for improved federal grant management and reporting that is consistent across City departments.

The third system improvement is the creation of the Grant Information Form which the City developed in collaboration with CLA, LLP. This form will be required at the time the recipient is requesting that the Board of Finance approve/accept a grant. For grants under $50,000 that do not require Board of Finance approval, the form will be submitted directly to the CAO upon request of the recipient seeking approval to accept the grant. In both cases, this form will be submitted to the City Federal Grant coordinator upon award acceptance. This resource will provide an additional quality-control check to ensure that all federal grants are properly tracked for the SEFA in real time throughout the year.

Together, these system improvements strengthen the City’s ability to gather necessary information to provide a complete and accurate SEFA report.