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April 15, 2010

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

We have audited the financial statements of the City of Burlington, Vermont as of and for the year ended June 30, 2009 and have issued our report thereon dated April 15, 2010. We did not audit the financial statements of the Electric Department Fund. Those financial statements were audited by other auditors and our report on that Fund is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Burlington, Vermont as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Burlington, Vermont'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 City of Burlington, Vermont's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Burlington, Vermont'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 override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed as follows, 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies so indicated in the accompanying schedule of significant deficiencies and recommendations to be material weaknesses.

A significant deficiency is a deficiency, or 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. We consider the deficiencies so indicated in the accompanying schedule of significant deficiencies and recommendations to be significant deficiencies in internal control to be significant deficiencies.

We have also noted other matters in the accompanying schedule of findings and recommendations that are opportunities for strengthening internal control and operating efficiency. We have discussed the recommendations with the staff during the course of fieldwork and some the recommendations may have already been implemented.

The City of Burlington, Vermont's written responses to the findings and recommendations identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, the City Council and the management of the City of Burlington, Vermont 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

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

DEFICIENCIES IN INTERNAL CONTROL:

Material Weaknesses:

09-1 City Finance Department Journal Entries

Criteria:

Internal controls should be in place over the preparation, approval, and posting of journal entries to help ensure that entries are valid and appropriate, adequately supported, and posted as prepared. Additionally, monitoring controls should be in place to determine that the controls over journal entries are operating effectively and as designed.

Condition:

The City Finance Department's controls over the preparation, approval and entry of journal entries are inadequate. Deficiencies noted were as follows:

- Several journal entries were either not approved or were approved and processed by the City's Finance Department incorrectly.
- Correcting entries done through the gross receipts module are not subject to the same controls as other journal entries and correcting entries.
- In several instances, the documentation included with the journal entries to support the journal entry was insufficient to determine the purpose for which the entry was being made.
- The City does not have specific controls relating to the monitoring of journal entries to help ensure that every journal entry is made following the City's procedures. We noted several instances where entries were being made to correct errors in original postings. Monitoring controls would help to eliminate such errors.
- The City does not maintain a listing of all of the authorized journal entry approvers in the City Finance Department or elsewhere.

Cause:

The City Finance Department's controls over all aspects relating to general journal entries are inadequately designed and inconsistently applied.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Effect:

Errors in journal entry preparation and approval have caused the City to have material misstatements in their accounting records.

Recommendation:

We recommend the City's Finance Department evaluate its controls over journal entries and apply them consistently to all correcting entries, not matter where they are generated from. We also recommend that staff be more thorough when preparing and approving journal entries and that they include more detailed documentation to support the validity and appropriateness of the journal entry. Additionally, we recommend that the City implement monitoring controls to determine that controls over journal entries are designed effectively and implemented as designed. This will help alleviate the number of journal entry errors made and help to catch errors that do occur on a more timely basis. Lastly, we recommend that the City develop a listing of all of the individuals who are allowed to approve journal entries by Department and distribute it to all individuals who may be responsible for preparing entries.

Management Response:

In FY 2010, the City implemented strengthened processes and controls for journal entries. All journal entries submitted by departments must be reviewed and approved by authorized department staff as appropriate, accurate and fully documented. Within the C/T Office, journal entries must be approved by a Senior Accountant or the Chief Accountant.

09-2 School Department Journal Entries

Criteria:

Internal controls should be in place over the preparation, approval, and posting of journal entries to help ensure that entries are valid and appropriate, adequately supported, and posted as prepared.

Condition:

The School Department has implemented procedures which require review and approval of journal entries being recorded in the accounting system. However, this review is not always done on a timely basis. In addition, the journal entries are not always supported by adequate documentation.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Cause:

The School Departments lack of timeliness over review of journal entries is due to time constraints on the individual responsible for reviewing the entries. It is unknown why journal entries are not always supported by adequate documentation.

Effect:

The deficiency in timeliness of review of journal entries could allow improper accounting to go undetected for some time or be missed. The lack of adequate documentation could result in inaccurate journal entries.

Recommendation:

We recommend that the School Department update its procedures to review and approve journal entries in a timely manner to increase the likelihood of catching errors or misstatements. We also recommend that the School Department include more detailed supporting documentation for each journal entry to help the reviewer determine the validity and appropriateness of each entry.

Management Response:

Consistent with recommendations made by the City's independent auditors, the School Department's Business Office Accountant will provide complete and detailed supporting documentation for each journal entry. In turn, the Business Office Manager will review journal entries in a timely manner.

09-3 System to Identify Additions/Deletions of Capital Assets

Criteria:

Internal controls should be in place to help ensure that accurate records of property, plant and equipment, including original cost and current year acquisitions and dispositions, are maintained for reporting purposes.

Condition:

The City does not have a system in place that tracks the purchase and disposition of property, plant and equipment. Departments have been instructed to use a specific code for all capital purchases for the General Fund, Enterprise and Special Revenue Funds. However, we noted several items were not properly capitalized during fiscal year 2009. In addition, the Telecom Department does not capitalize property, plant and equipment during the year.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Cause:

The City's internal controls over the reporting of property, plant and equipment are inadequately designed

Effect:

Due to the errors from using the specific code, more research and time was required to search the City's records to identify all purchases and dispositions. There were several additions that were found during testing. In addition, the expenses for the Telecom Department were overstated.

Recommendation:

We recommend the City continue to develop the system for all departments to notify accounting personnel each time property, plant and equipment is purchased or disposed of, and to report the dollar values of such transactions.

Management Response:

As noted in the finding, properly recorded capital expenses are readily identified and listed. The City needs to continue to strengthen efforts to ensure the use of proper budget and accounting codes for such expenses. In 2009, and again in the first quarter 2010, the City's Chief Accountant has advised the managers and accounting staff of all City departments that they are required to list all departmental purchases and dispositions of plant, property and equipment on its Capital Asset schedule in order for these assets to be properly capitalized and to ensure that expenses are not overstated.

To improve compliance with this request, each department's Purchasing Manager and field/operational managers has been requested to advise their accounting staff of the additions/deletions of capital assets. The Office of C/T will send a reminder advisory note to all City department heads requesting the department maintain a current Capital Asset schedule. The C/T Office will periodically review City departments compliance and proper accounting.

09-4 School Department Capital Asset Accounting

Criteria:

Capital expenditures should be recorded as property, plant and equipment in the period in which the work was performed or the asset was put into use, not the period in which it was paid for.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Condition:

The School Department does not have adequate controls in place to record capital expenditures in the proper period. The School Department recorded certain expenditures in the period in which the invoices were paid rather than when the work took place. In addition, the School Department recorded a capital addition twice.

Cause:

The School Department's internal controls over the capitalization of expenditures for assets in the proper period are inadequately designed.

Effect:

This caused the capital asset records to be materially overstated and adjustments were required to correct the balances.

Recommendation:

We recommend that the School Department implement controls and procedures to ensure that expenditures for capital outlay are recorded when incurred.

Management Response:

The School Department's Business Office will improve its procedures for recognizing the proper time frame for the recording of capital expenditures and the associated depreciation schedules. It will also research software that can be used for capital asset accounting.

09-5 Local Option Sales Tax Receivable

Criteria:

The local option sales tax receivable balance at fiscal year end should be recorded on a timely basis.

Condition:

When determining the year-end accounts receivable balance, the City uses subsequent cash receipts, however, they did not record the fourth quarter local option sales tax receivable in the amount of \$434,508.

Cause:

The City does not have a system in place to record all of its receivables on a timely basis.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Effect:

The receivables listing was inaccurate at year-end.

Recommendation:

We recommend the City implement a system to record all significant receivables.

Management Response:

In the opinion of the City, this finding and recommendation lacks merit. The City has a system to record all significant receivables. The City reviews all deposits received in July and August and as appropriate, records to the prior year revenue any deposits for revenue earned in the prior fiscal year. In FY 2009, the error rate for recording such receivables was less than 1%.

The particular receivable noted, "the local option sales tax" which was the basis of this finding, is not a known fourth quarter receivable. It is not received until the second week in September and is determined after the July and August deposits have been processed. A material error in recording receivables such as the item noted would typically be identified during the preparation of the financial statements due to the obvious variance with the budget. With regard to this item, a single journal entry was issued to correct this minor oversight.

Many City departments and the Office of C/T are able to recognize their receivables on a daily basis because the amount is known and there is software in place to track the receivables on a daily basis. However, in a few situations, such as revenues earned by the Parks and Recreation Department, Gross Receipts collections, and the Local Option Sales Tax Revenue, the amount of the receivable is unknown until the time of actual receipt. The Parks and Recreation Department has recently adopted software that will improve the timely recording of receivables. Meanwhile, the recording of receivables for Gross Receipts and Local Tax Revenues cannot be accelerated because these amounts cannot be forecasted; and therefore there is no apparent method for determining the 4th Quarter receivable until after all these deposits is processed.

09-6 Allowance for Doubtful Accounts Review

Criteria:

The allowance for doubtful accounts should be reviewed and uncollectible amounts written off, if any.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Condition:

The City has many receivables that have not been collected in many years in several of its departments. These include personal property taxes, real property taxes, loans, airport fees, project reimbursements, fire alarm fees, telecom fees and police ticket fines. In addition, the City has not reviewed the allowance for doubtful accounts relating to receivables in a timely manner. For the Airport, there was an adjustment to increase the allowance for doubtful accounts by approximately \$900,000.

Cause:

The City does not have internal controls in place to ensure they review the accounts receivable listing and adjust the allowance for doubtful accounts and write off uncollectible amounts, if any.

Effect:

Receivables may be overstated as amounts may not be collectible. The allowance for doubtful accounts was inaccurate at year end.

Recommendation:

We recommend that the City review its accounts receivable lists for all funds and all departments and write-off amounts deemed uncollectible. We also recommend that the City review and adjust the allowance for doubtful accounts on a more timely basis.

Management Response:

Historically, in previous years, the City did not evaluate many receivables to establish an allowance for doubtful accounts. Over the past two years, with the assistance of the auditors, the City has engaged in a review of such receivables to identify and establish appropriate allowances for doubtful accounts.

The C/T Office and other the City departments review their allowance for doubtful accounts throughout the year and at year end. In many cases, city ordinances or statutes prohibit writing off bad debt such as property taxes, personal property, gross receipts and code enforcement fees. These receivables are subject to an abatement hearing before an adjustment can be made. For other doubtful accounts, the department managers, including the Airport, ultimately determine which receivables can be written off and when they can be deemed uncollectible. The City will continue to strengthen the review of doubtful accounts and allowances in FY 2010.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-7 Provisioning Expense Reconciliation

Criteria:

Internal controls should exist to ensure that payments to vendors for video provisioning services have been made based on data that has been verified as correct.

Condition:

Most of the video provisioning invoices are paid based on the amount of subscribers for each channel. The Telecom Department receives a report from the operating system showing the amount of subscribers for the month. However, this report appears to have been wrong during the year, resulting in the Telecom Department overpaying vendors for video provisioning. Also, during testing, we noted that there were a few channels that had the wrong amount of subscribers according to the operating report.

Cause:

These overpayments and discrepancies from the operating report occurred because the Telecom Department does not have any internal controls in place to verify that the reports provided from the operating system are correct and the payments being made are reconciled to these reports.

Effect:

The Telecom Department overpaid their vendors for video provisioning services.

Recommendation:

We recommend that the Telecom Department design and implement controls to ensure that the reports from the operating system are correct before paying any of the video provisioning invoices.

Management Response:

Burlington Telecom is in the process of implementing policies and procedures to perform and document the provisioning expense reconciliations.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-8 Installation Contractor Invoices

Criteria:

Internal controls should be in place to verify the proprietary of a contractor's invoice, based on their contract, before payment is made.

Condition:

Billings for the Telecom Department's installation contractor were overstated based on their contract.

Cause:

These billings are complex and require analysis to verify the amount owed. No internal controls were in place to perform this analysis before the bills were paid.

Effect:

The Telecom Department overpaid their installation contractors and had to perform an analysis of all billings to identify errors.

Recommendation:

We recommend that the Telecom Department design and implement internal controls to analyze the contractor's invoices for proprietary before payment.

Management Response:

Burlington Telecom has implemented policies and procedures to analyze contractors' invoices prior to payment.

Significant Deficiencies:

09-9 Accounting and Procedures Manual

Criteria:

An accounting and procedures manual should be in place. This manual should define duties and responsibilities for current personnel, so as to prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting record. It will 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, training of new employees and possibly allow for delegation to other employees of some accounting functions management performs and to ensure compliance with OMB and grantor requirements.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Condition:

The City does not have an accounting and procedures manual in place for all City departments and the departments that do have them have not updated them.

Cause:

The City has not developed and/or updated the manuals due to time constraints.

Effect:

The City's staff does not have a manual to turn to when questions arise about the scope of their duties and responsibilities.

Recommendation:

We recommend that the City continue to develop and update this document as soon as possible. Each individual should document their duties and how to perform them. 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. We also recommend that the City determine which departments have up to date manuals in place and begin the process of implementing manuals for all departments that have responsibility for financial and compliance issues.

Management Response:

In March 2010, the C/T Office informed all City departments that they must develop and maintain documentation of all accounting and cash handling procedures for the purpose of developing a departmental and citywide Accounting Processes/Procedures Manual. Each department will be held responsible for maintaining a current, complete, and audit-ready departmental Accounting Processes/Procedures Manual. In addition, each department has been asked to submit such documentation to the C/T Office to enable the City to compile a comprehensive Accounting Process/Procedures Manual.

09-10 Documentation of Internal Control System

Criteria:

A solid understanding of internal control is essential. An organization must continually assess their internal control systems to ensure accurate financial reporting and compliance with laws and regulations. As part of this process, management should formally document its control systems. This kind of documentation should provide management with an understanding of the systems related to financial reporting, the documentation of controls over relevant assertions related to all significant accounts, disclosures in the financial statements, antifraud programs and controls over selection and application of accounting policies.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Condition:

The City has developed or has begun to develop basic accounting procedures manuals for several of the City departments. However, the City has not expanded on this area and extended the accounting procedures manual to include other functions (cash disbursements, account reconciliations, etc) or added more detail on how the duties are completed, where information comes from and, who completes the duties. In addition, the City does not have a formalized documentation of the internal control systems.

Cause:

The City has not expanded their basic accounting procedures manuals to include documentation of internal control systems due to time constraints.

Effect:

The City's employees do not have specific documentation to refer to when questions arise about the operation of the internal control systems.

Recommendation:

We recommend that the City perform a complete evaluation and documentation of the internal control process. The document should break out the internal control process into the following five areas:

1. Control Environment – Sets the tone of an organization and is the foundation for all other components.
2. Risk Assessment – The identification and analysis of relevant risks to achieve its objectives forming a basis for how risks should be managed.
3. Control Activities – The policies and procedures that help ensure management directives are carried out.
4. Information and Communication – The identification, capture and exchange of information in a form and timeframe that enables people to carry out their responsibilities.
5. Monitoring – The process that assesses the quality of internal control performance over time.

Management Response:

As the City updates and expands the Accounting Process/Procedure Manual, the Documentation of internal controls will be incorporated.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-11 Internal Audit Function

Criteria:

Internal controls should be in place to monitor, through an internal audit function, the completeness of the population of revenue reports submitted and the accuracy of the reports to determine that all revenue that should be recorded by the City has been reported to the City Finance Department.

Condition:

The City receives certain revenue in the form of fees, taxes, concessions, 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.

Cause:

The City does not have an internal audit function.

Effect:

The City's financial statements have the potential to be misstated due to not including all revenues.

Recommendation:

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.

Management Response:

The City does not agree that there is a significant risk that the City's financial statements may be materially misstated due to not including all revenues as noted in this finding. The City currently tracks historical budget and actual data that would readily identify significant fluctuations in revenue consistent with fraud.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

In lieu of an internal audit function, over the past several years, the C/T Office has focused on several revenue areas to develop stronger controls to insure the integrity of revenue collection. The priority efforts have been on major revenue sources such as gross receipts, cash collection revenues such as parks admissions and revenue sources with inadequate system support such as minimum housing fees.

The City will continue to expand the efforts of the past several years to improve its annual review/audit of department revenue streams to prioritize important areas for accounting process improvements. As these reviews are completed, new areas in the same or other departments will be selected.

09-12 Fraud Risk Assessment

Criteria:

The City should have a program to identify vulnerabilities to fraudulent activities and identify processes, controls and other procedures to mitigate any identified fraud risks.

Condition:

The City has not performed a fraud risk assessment.

Cause:

The City has not performed a fraud risk assessment due to time constraints.

Effect:

The City could be subject to fraudulent activities of which they are unaware.

Recommendation:

We recommend the City perform a fraud risk assessment to reduce the possibility of fraudulent activities.

Management Response:

The City does not agree with this finding. Each year the Office of C/T selects departments for review of revenue producing accounts. During this review, the Office of C/T conducts fraud risk assessments and produces better controls by evaluating the department's procedures and software. For example, in FY 2009, the City converted several divisions in the Parks & Recreation Department to "Rec Trac" software. In FY 2010, the City worked with Code Enforcement to convert their billing software to NEMRC for better tracking. The C/T Office will continue conducting fraud assessments on revenue streams in all departments.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-13 Billing System/Accounts Receivable Ledger

Criteria:

Accounts receivable balances at fiscal year end should be recorded on a timely basis.

Condition:

When determining the year-end receivable balances for grants, City arts, miscellaneous, park and 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, 2009.

Cause:

The City does not have a centralized system in place to record all of its receivables on a timely basis.

Effect:

The reports of the financial position of the City are inaccurate during the year.

Recommendation:

We recommend the City implement a system to record all significant receivables.

Management Response:

The City does not have an integrated Accounts Receivable program. Several departments utilize different software for their billing and accounts receivable. This diversity of systems reflects the different and specific requirements of departments. For the past several years, the C/T Office has worked each year with at least one major department to upgrade the accounting system to better tracking, reporting, and integration of the department's account receivables. For example, in FY 2009, the City converted several divisions in the Parks Department to "Rec Trac" software thereby integrating their A/R reporting with the C/T Office and the main accounting system. In FY 2010, the Code Enforcement billing has been switched to NEMRC to integrate their accounts receivable reporting.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-14 Parks and Recreation On-Site Program Receipts and Controls

Criteria:

Internal controls should be in place over cash collection procedures to help ensure that all of the cash collected is recorded and reported to the City's Finance Department and deposited into the City's accounts as well as to reduce the risk of fraud related to revenues where cash is collected.

Condition:

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. A number of weaknesses in the design of the internal controls over revenues were identified. The following is a summary of these weaknesses:

Leddy Arena:

- Deposits are only done twice per week.
- There are no receipts or tickets given out for certain public skating programs.
- There is currently no procedure in place to reconcile the software utilized by Leddy Arena staff to the City's centralized accounting records.

Waterfront Parking Lots:

- Not all attendants understood that they were required to give a receipt to customers.
- Not all locations have a sign asking customers to take a receipt.
- There is no requirement to display the receipt or other acceptable proof of payment, therefore, there is no way to monitor whether all the cars in the lot have paid or have the right to free parking.
- There is no list maintained or receipt generated for free parkers such as handicapped or Green Mountain passes.
- There is no list provided to tell the attendants who is eligible to park for free.
- There is no comparison done between the level of utilization and revenue reported.
- One parking attendant has a key to run his own "Daily Z Report" which is supposed to be run only by the Gate Supervisor.
- Several attendants make their own bank deposits although the Gate Supervisor or the designated person is supposed to pick up the deposits.
- The attendants are supposed to note and explain all voids, no sales and refunds of an "Attendant Activity Sheet." Not all attendants are utilizing the form.
- No one is verifying that all voids, no sales and refunds are listed and explained on the "Attendant Activity Sheet."
- Internal control has not been emphasized by management and, as a result, some attendants indicated that they were aware that controls over revenue were weak.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Boathouse:

- There is no comparison between utilization statistics and revenue.
- There was no record of the deposit of shower money until mid-July, 2008.
- Occasionally, if cash was not found in the envelope for a particular transaction, that transaction was deleted from the system. These were not tracked and there was no documented authorization for the deletions.
- There was no accounting for the sequence of transactions in the Marina software. There were a number of missing transactions. The software company can recover most of these transactions, but not all.
- There are transactions marked void in the system with no explanation as to the reasons for the voids or any documented authorization.
- There was no set amount of cash in the cash register.
- Cash is kept in the safe in the Boathouse office overnight.

Special Events:

- There is no requirement to give out receipts.
- There is no reconciliation done between the deposits made to supporting documentation of the amounts turned in.
- There is no reconciliation between sales of items purchased to be sold at events and receipts turned in.
- There is no monitoring of the Memorial Auditorium. The manager handles everything, including billing the customers, collecting cash, preparing the deposits and the deposit spreadsheet determining revenue codes, and making the deposit.

Cause:

The City has not implemented adequate internal controls related to these activities due to time and staffing constraints. Internal controls over revenue at the Waterfront and the collection and processing of parking fees at the City's recreation facilities are inadequately designed.

Effect:

The City has unprotected assets that could be susceptible to misappropriation.

Recommendation:

We recommend that the City implement better controls over these areas. Obviously, a cost/benefit analysis will have to be part of this process. We also recommend that the Parks and Recreation Department staff create a consistent process for receiving, recording and documenting revenue related to parking fees at the Parks and Recreation Department facilities. We further recommend that the City evaluate the deficiencies in internal control noted above and design and implement procedures and controls to address these issues.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Management Response:

Leddy Arena:

Deposits are done only twice per week.

Management Response: This is correct. The Parks & Recreation Department's accounting staff will document and communicate a policy that deposit frequency needs to be increased so cash on hand does not exceed \$500. Parks & Recreation Department's management is to conduct spot audits for compliance.

There are no receipts given out for certain public skating programs.

Management Response: The City disagrees with this as a finding. Although no receipts or tickets are given for certain public skating programs, there is another monitoring device in place that enables compliance with operating procedures for public fee payment.

There is currently no procedure in place to reconcile the software utilized by Leddy Arena staff to the City's centralized accounting records.

Management Response: The City agrees. The Parks and Recreation Department's accounting department is committed to working with the C/T's accounting and IT staff during FY 2010 and FY 2011 to improve the utilization of Rec Trac as this will enable integrated accounting.

Waterfront Parking Lot:

In FY 2009, not all attendants understood that they were required to give a receipt to customers.

Management Response: All attendants have since been trained to provide a receipt to all customers and the policy is followed. The Parks & Recreation Department management will conduct spot audits.

In FY 2009, not all locations had posted a sign asking customers to take a receipt.

Management Response: Signs have since been posted at each booth to help reinforce this accounting control process.

There is not a requirement to display the receipt or other acceptable proof of payment.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Management Response: This control process will be implemented by the Parks and Recreation Department's Parking Supervisors and the department's management will conduct spot audits.

There is no list maintained or receipt generated for free parkers such as handicapped or Green Mountain passes.

Management Response: The City agrees. Documenting all free parking receipts on a list will be implemented by the attendants. It is helpful that cash registers have been programmed and all attendants trained to generate a receipt for visitors who receive free parking. There is annual training and monitoring on this accounting control process.

There is no list provided to tell the attendants who is eligible to park for free.

Management Response: The City disagrees with this recommendation. There is no list of who is eligible to park for free because there is only one qualifying exclusions and that is for handicapped parking. The handicapped parking placard must be displayed. All attendants are trained each year on this criterion for free parking.

No one is verifying that all voids, no sales, and refunds are listed and explained on the "Attendant Activity Sheet".

Management Response: The attendants have been trained to note and explain all voids, no sales and refunds on an "Attendant Activity Sheet". Annual training will re-emphasize this process to eliminate inconsistent implementation. Supervisors collect the forms, review and follow the same procedures. Supervisors will discuss lapses with specific attendants. Parks & Recreation Department management will conduct spot audits.

There is no comparison between the level of utilization and revenue reported.

Management Response: The City agrees. The Parks & Recreation Department accounting staff will design an accounting process and the Parks & Recreation management will assign this responsibility to the Parking Attendant Supervisors. Parks & Recreation Department's accounting staff will review the Supervisor's reports to conduct on-going internal audits.

One parking attendant has a key to run his own "Daily Z Report.

Management Response: This will be researched and addressed by the Department of Parks & Recreation management. The Parks & Recreation General Manager will evaluate the corrective actions implemented and compliance.

Several attendants make their own bank deposits. The Gate Supervisor or the designated person is supposed to pick up the deposits.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Management Response: The City disagrees. Only one gate attendant makes his own deposit and this only occurs during the non-summer months when it is impractical for a supervisor to visit daily to pick up deposits that are usually very small.

Internal control has not been emphasized by management and as a result some attendants indicated that they are aware that controls over revenue are weak.

Management Response: Internal controls will be emphasized by Parks & Recreation management, and the department's management will provide improved training on this issue with the Gate Supervisors and Attendants. Parks & Recreation's General Manager and a Senior Accountant will conduct spot audits.

Boathouse:

There is no comparison between utilization statistics and revenue.

Management Response: The City agrees. The Parks and Recreation Department's accounting staff will design a report for the recommended analysis. The boathouse staff will populate the reports with data and provide supporting documentation. The department's accounting staff will analyze/compare utilization and revenue reports for internal auditing purposes.

There was no accounting for the sequence of transactions in the Marina software. There were a number of missing transactions. There are transactions marked void in the system with no explanation as to the reasons for the voids or any documented authorization.

Management Response: The Parks and Recreation Department no longer uses the old marina software that allowed this sequencing gap. With the implementation of Rec Trac, these issues have been resolved. Rec Trac enables refunds and the refund reason must be entered into Rec Trac's transaction notes and into the journal transaction reports. The Department is working to improve utilization of Rec Trac as the booking software for boat slips. As improvements, corrections, and implementation becomes more complete, records and reports will improve for these functions.

Occasionally, if cash was not found in the envelope for a particular transaction, that transaction was deleted from the system.

Management Response: A proper accounting process will be developed by the Parks & Recreation Department's accounting staff and its management will train all personnel handling cash on proper accounting processes and internal controls. Parks & Recreation Department accounting staff will follow-up to evaluate corrective actions and compliance.

There was no record of the deposit of shower money until mid-July, 2008.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

This item was fixed in FY 2009 and shower monies are currently being deposited and accounted for correctly.

Starting and ending drawer and enforce it with consistency.

Management Response: A \$300 cash drawer was established in 2009 as a starting and ending drawer and this is enforced consistently.

Cash is kept in the safe in the Boathouse office overnight.

Management Response: The boathouse has made deposits daily since the opening in FY 2009 and the new software implementation of Rec Trac. Only one day's deposit is in the safe and for the boathouse only because of its late closing. The manager is not there late at night to make deposits; and as a result, deposits are made first thing in the morning.

Special Events:

There is no requirement to give out receipts.

Management Response: This is true and typical of special events. The Parks and Recreation's departments accounting staff will evaluate alternative processes and implement a best practice to improve cash controls.

There is no reconciliation done between the deposits made and supporting documentation of the amounts received.

Management Response: Reconciliations will be completed.

There is no reconciliation between events scheduled and receipts turned in.

Management Response: This probably relates to activities within the major even. If this is the case, then an activities log and supporting documentation will be developed and consistently implemented.

There is no monitoring of the Memorial Auditorium. The manager handles everything...

Management Response: Policies are clearly detailed for Memorial Auditorium. During FY 2010 and FY 2011, these will be closely reviewed and revised by the Parks and Recreation Department accounting staff for improved controls.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-15 Traffic Meter Receipts

Criteria:

Internal controls should be in place over the collection of parking meter receipts to help ensure that all money collected is recorded and reported to the City's Finance Department and deposited in the City's accounts.

Condition:

The current system for collection of parking meter receipts has very limited controls in place. There is currently no reconciliation of totals that are collected from the meters to what is deposited in the bank. The City currently has the capability to do an internal audit of these collections but this process has not yet been implemented. The City has evaluated using the electronic data from each of the meters, however, they feel the cost of the additional equipment/software needed to implement it exceeds the benefits.

Cause:

The City has not implemented the internal audit procedure for parking meters due to time constraints on the employees collecting the meter fees.

Effect:

The City has unprotected assets that could be susceptible to misappropriation.

Recommendation:

We recommend that the City evaluate the procedures over parking receipts, with a cost/benefit analysis, to attempt to strengthen controls in this area.

Management Response:

The Traffic Department Manager will research and evaluate alternative processes and best practices for money collections at the parking meters; and the depositing of these funds. They will review this research, recommendations and process flow-charts with the Chief Accountant in the C/T office and a decision will be made within 6 months if a different process for Meter Collections is necessary.

09-16 Parking Garage Revenue

Criteria:

Internal controls should be in place to help ensure that all procedures manuals relating to the various parking garages around the City are up to date and include all relevant procedures and controls relating to the garages. The manual should also include internal controls related to the monitoring function of internal control.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Condition:

The City has implemented a parking supervisors' procedures manual. This manual is designed to provide guidance on a variety of issues that affect employees and supervisors of the garages. There are several items that should be included in the manual in order to clearly outline responsibilities for initiating, recording and performing internal auditing of transactions. The following are some of the items that should be included:

- The manual does not address new procedures implemented on monitoring of voided transactions. The manual should clearly outline who is monitoring and how the monitoring is occurring.
- The City implemented new procedures to support transactions involving employee discounts, monthly passes, handicapped usage and hotel guest transactions. These new procedures and the responsibility for monitoring should be included in the manual.

Additionally, the City's procedures in place appear to be insufficient. We noted several issues during our testing and observation:

- There was no support for some reports with employee discounts, monthly passes, handicapped usage and hotel guest transactions.
- A few transactions did not have information attached to support the voided transactions.
- One master cash report was not approved.
- The garages did not back up their software to store copies offsite. The garage began backing up their software in August, 2009.
- The software does not require the cash register and the arm of the gate to act together. The cashier is able to open the arm and cash register at any time.
- Tickets are not being attached to the daily cashiers report on a consistent basis. Out of sixty days selected for testing, thirty-six days were missing the appropriate validation or tickets.
- The cash drawer was left open on several occasions during the observations at the Marketplace Garage.

Further, the Airport has equipment to monitor long-term parking but has not coordinated with the equipment provider to implement this.

The downtown manager is now performing weekly ticket audits of employees at random where the activity is reviewed for a day including a review of tickets for the downtown garage. This began when suspicious behavior was found. This resulted in finding issues and in the dismissal of two employees.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Cause:

The City has not sufficiently updated the procedures for the various parking garages or updated the supervisor's manual to include all relevant issues affecting garage employees and supervisors and to include monitoring controls.

Effect:

The City's parking garage employees and supervisors do not have a comprehensive manual to turn to when questions arise over how to handle various situations. Also, inconsistent and inadequate handling of events and situations occur due to the lack of a comprehensive manual. This could result in misappropriation of assets.

Recommendation:

We recommend the manual be updated to outline all policies and procedures and who is responsible for each. We also recommend that the City evaluate its procedures and controls related to the issues noted above and that appropriate procedures be clearly documented and followed at all parking garage locations. Further, we recommend that the City implement procedures to monitor long-term parking at the Airport.

Management Response:

The Parking Garage Supervisor's Procedures Manual is all inclusive of the Attendants' Procedures Manual. The supervisor's manual expands on the supervisor's responsibilities over and above that of the attendant. The Traffic Division's accounting staff and Parking Garage Supervisors will document and post the two auditor recommended accounting and cash management control procedures in both the supervisor and attendant manuals. The Traffic Division's accounting staff will evaluate and improve the documented processes and add controls as needed. In addition, the Traffic Division's accounting staff will conduct spot audits on the issues identified during testing.

09-17 Review of Spreadsheet Calculations

Criteria:

Spreadsheets generated are often used to assist in reconciling and supporting account balances. Internal controls should be in place over the preparation and review of the spreadsheets and the calculations performed therein.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Condition:

Several of the City's departments prepare numerous schedules utilizing spreadsheets to calculate amounts recorded in the financial statements. However, the City's Community and Economic Development Office and the School District do not have controls in place to have an individual review the schedules for accuracy and mathematical errors. Some of those schedules did not calculate the account balance properly due to errors in the formulas.

Cause:

Internal controls over the preparation and review of spreadsheets are inadequately designed.

Effect:

The City's Community and Economic Development Office and School District's account balances may be incorrectly calculated and supported due to spreadsheet errors. For example, the School District utilizes Excel for tracking fixed assets and calculating depreciation and the spreadsheet formulas were inaccurate causing errors in the School District's reporting of fixed assets. For the City's Community and Economic Development Office, there were errors in the reporting of loans receivable discounts and the allowance for doubtful loans receivable.

Recommendation:

We recommend that spreadsheets supporting amounts recorded in the financial statements be reviewed for proper calculations. Additionally, we recommend that the School District consider purchasing fixed asset software to track capital assets and depreciation to avoid similar problems in the future.

Management Response:

CEDO's Response: The Assistant Director of Finance in CEDO will review any spreadsheets prepared by the Financial Assistant for audit purposes to ensure accuracy and completeness. Likewise, the Financial Assistant will review spreadsheets prepared by the Assistant Director of Finance for accuracy and completeness. Where feasible, a double check formula will be added to spreadsheets to ensure accuracy of calculations.

School Department Response: The School District will review the spreadsheet calculations for accuracy for fixed asset depreciation schedules and will also review available software packages that may improve the management of fixed assets and the calculation of depreciation schedules.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-18 Billing Master File Maintenance – Telecom Department

Criteria:

Internal controls should be in place over the Telecom Department billing master files to ensure that edits being made to master files are authorized.

Condition:

The Telecom Department does not have adequate internal controls in place to monitor edits that are being made to master files. Due to this, it is possible for authorized employees to make changes to the Department's master files that were not approved, potentially causing master file information to be inaccurate.

Cause:

Internal control over the Telecom Department billing master files are inadequately designed to ensure unauthorized changes are not being performed.

Effect:

There is the potential for errors in the Telecom Department's billing master files.

Recommendation:

We recommend that the Telecom Department design and implement internal controls over master file maintenance to help ensure that only approved changes are being made to the files. We also recommend that monitoring controls be implemented to help detect operating errors in these new controls.

Management Response:

Burlington Telecom will implement an audit in FY10 of access to the Billing Master File.

09-19 Deferred Revenue – Telecom Department

Criteria:

Revenue that has been collected, but not earned, must be recorded as deferred revenue.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Condition:

Burlington Telecom's deferred revenue was misstated at fiscal year end.

Cause:

Burlington Telecom does not have internal controls in place to help ensure that the recording of deferred revenue is done accurately throughout the year and at fiscal year end.

Effect:

This lack of controls over the recording of deferred revenue caused Burlington Telecom's deferred revenue to be misstated at fiscal year end and adjustments were required to correct the balance.

Recommendation:

We recommend that Burlington Telecom design and implement internal controls to ensure that revenues that have been collected, but not earned, are recorded as deferred revenue.

Management Response:

Burlington Telecom has implemented processes to ensure the correct recording of deferred revenue.

09-20 Segregation of Duties and Monitoring - Telecom Department

Criteria:

Internal controls should be in place to segregate the incompatible functions of reconciling/balancing accounts receivable accounts and being the system administrator. Further, internal controls should be in place to document the system administrator's procedures and another employee should have the knowledge and capability to perform these functions in the system administrator's absence.

Condition:

The Business Office Manager at the Telecom Department controls or performs many of the critical billing functions and controls without oversight. This includes being the main contact with the billing service, being the system administrator (able to change master files) having the authority to issue credits, investigating complaints, reviewing delinquent accounts and balancing the general ledger accounts receivable control account to the subsidiary records. Further, there is no documentation as to how and when these functions are performed, which would make it difficult to continue them if these individual were absent for any length of time.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Cause:

The Telecom Department's internal controls and documentation of processes over billings and reconciling of accounts receivable are poorly designed.

Effect:

The Telecom Department has inadvertently left its assets susceptible to the risk of misappropriation. Further, the lack of documentation leaves the Department at risk if the system administrator is absent for a long period of time.

Recommendation:

We recommend that the duties regarding balancing the accounts receivable to the general ledger be reassigned. We also recommend that an edit of all changes to the master files, billing adjustments and service credits be reviewed each month. Further, we recommend that another employee be trained as a backup for the Business Office Manager and that the critical elements of his job be documented. Also, we recommend that other management be involved in the review of delinquent accounts.

Management Response:

The critical elements of the Business Office Manager's job will be documented in FY 2010. Currently, other employees have been trained on specific functions of the Business Officer Manager's job. The duties regarding balancing the accounts receivable to the general ledger has been reassigned as of FY10. The Business Office Manager reviews the reconciliation. The Business Office Manager has never dealt with delinquent accounts.

Other Recommendations:

General City-Wide Issues:

09-21 Computer Controls

The City does not have a strategic plan or risk management process to support its financial reporting requirements. In addition, controls over data recovery and testing processes are incomplete and physical security and access to programs, data, program changes and systems acquisition and development are not appropriately managed to ensure that the software adequately supports the financial reporting objectives.

We recommend that the City do a complete evaluation and documentation of its processes and controls over data recovery and testing, physical and program security, program changes and systems acquisitions and development to ensure they are adequate to support the City's financial reporting objectives and requirements.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Management Response:

In order to address this audit note, the Central IT Office will work with each City department and the C/T office to ensure that data security and recovery policies are included in each City department's Accounting Process/Procedure Manual and the City's Comprehensive Accounting Process/Procedure Manual.

09-22 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.

Management Response:

The City has substantially addressed the issue of developing appropriate disaster recovery capability over the past several years. However, the City agrees that a documented plan should be compiled. The City's data centers all employ off-site storage of data backups for all systems in support of business continuity due to catastrophic failure or equipment loss. These are either in the form of tape backup or redundant off-site data storage installations. As a result, exposure to a loss of data is no greater than 6 days. An on-site backup of data is done nightly.

The Central IT Office will complete documenting a disaster recovery plan by July 1, 2010. This will address at a minimum, the items cited in the audit note. It is anticipated that this plan will be incorporated into the City's master Emergency Operations Plan.

Additionally, Central IT, Burlington Telecom and Burlington Police/Fire have begun discussions to investigate the possibility of provisioning a single disaster recovery site for use by all data centers.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-23 Procurement

The City does not have a process in place to be sure that each department is following its procurement policy. Additionally, the policy does not appear to include procedures on certification of suspension and debarment that could impact compliance with Federal grant requirements.

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

Management Response:

The City has procurement policies in place and requires departments expending monies under Federal grants to verify that contractors are not suspended or debarred by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA). This finding was shared with departments receiving federal monies. Departments are being educated about following the suspension and debarment compliance requirement. Emphasis is being made to document the process. The City will follow up periodically with departments to check that this process is understood and being followed correctly.

09-24 City-wide Investment Policy

The City is required to disclose its investment policy and other restrictions on investments. Excluding the Pension Fund, the City does not have a formal investment policy. The Revenue Bonds of the Water, Electric, Airport and Telecom funds do have certain restrictions governing the investment of bond proceeds.

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

Management Response:

It is the practice and policy of the City to conform to any restrictions on the investment of bond proceeds. Further, the City is not aware of any violation of the restrictions on the investment of bond proceeds. However, the C/T Office will adopt a formal written investment policy by September 30, 2010.

09-25 Tracking of Contracts and Agreements

The City is party to numerous contracts and agreements. There are no internal controls in place to ensure that, as these contracts and agreements are signed or amended, they are reported to the Finance Department so that any impact they may have on financial reporting can be assessed.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

We recommend that the City implement internal controls to require that all contracts and agreements, whether original or amended, be reported to and tracked by the Finance Department for financial reporting purposes.

Management Response:

In accordance with the City's contract policies, all contracts in excess of \$100,000 must be approved by the City Council. Contracts between \$50,000 and \$100,000 must be approved by the Board of Finance. Departments are authorized to execute contracts under \$50,000.

A record of contracts approved by the Council is maintained in both the City Attorney and the C/T Offices. The City will evaluate the cost/benefit to strengthen internal controls in order to ensure that all contracts and contract amendments are reported to the C/T office, as already required, and approved by the Board of Finance or City Council as needed. C/T office will conduct spot audits on random expenditures, contracts and agreement starting FY 2011.

Revenue Recognition/Fraud Prevention:

09-26 City Arts Department Receipts

The City Arts Department collects money for various purposes but does not maintain a receipt log tracking the purpose and period for which the money is intended for. A summary is prepared by the City Arts Department and forwarded to the Clerk/Treasurer's office with very little support for where the receipts should be recorded in the accounting records. Additionally, it was unclear why certain July receipts were recorded as June revenues.

We recommend the City Arts Department implement a receipts log to track the receipts and reconcile this information to the accounting records. We also recommend that year-end receivable amounts be substantiated.

Management Response:

Starting mid FY 2010, City Arts has been providing full documentation for all deposits. The City Arts Department will establish a receipts log and reconcile this with deposits and provide documentation of this work to the C/T office.

09-27 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 they are adequate to cover all of its expenses including benefits and administrative costs.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Management Response:

The Police Department has reviewed the rates charged for Police Special Services Fees. A portion of this is governed by the police union contract, a small administration fee is also charged. Because of the competitive nature of security services and the public safety benefits of utilizing BPD personnel, the City has determined that it is appropriate to charge below the full cost of City personnel for these special projects. The C/T Office and Police department will discuss if it is appropriate to continue charging below full cost for these special projects.

09-28 Barter Transactions

A few departments of the City have entered into barter transactions where the City has exchanged goods and/or services with various vendors. These include dasherboard ads at Leddy Arena, boat slips, parking spaces and information related to sold properties in exchange for advertising, website services, discounts on tent rentals, DJ services and flooring.

These revenues and expenses were not recorded in the City's financial records. It is also not clear if these items followed the City's purchasing and approval processes. In addition, there is always valuation issues related to the items or services received.

We recommend that the City prohibit the use of bartering.

Management Response:

The City reviewed a similar recommendation last year to prohibit barter and determined that it would be detrimental to certain City programs. In the spring of 2009, the C/T Office requested that the Parks Department maintain an accounting of all barter transactions. Currently, the Parks Department staff has been asked to identify all instances of existing barter arrangements so that the City can adequately review these arrangements to properly account for the transactions and determine whether to discontinue such bartering.

Accounting Issues:

09-29 Ambulance Receivables, Deferred Revenue and Allowance

The Ambulance receivable balance, allowance for doubtful accounts, and deferred revenue was incorrectly recorded at year-end. This was due to not obtaining the correct reports from the service organization that handles ambulance billings and revenues. The City also records revenue on a cash basis during the year, however, they are provided reports to record this activity on the accrual basis during the year.

We recommend the Finance Department obtain the correct reports so the Ambulance activity is recorded properly at year-end. We also recommend that revenues be recorded on the accrual basis throughout the year.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Management Response:

The VNA agrees to produce the reports that the City needs. The City will meet with the auditors to confirm that the new reporting procedures will meet audit standards.

09-30 Evaluation of Construction in Progress

The City has several infrastructure projects in progress and has recorded capital assets relating to this construction in progress at cost, including the Southern Connector Project. The Southern Connector Project has had some activity in fiscal year 2009, however it is possible that its value, as recorded, has become impaired.

We recommend that the City evaluate this project and other infrastructure projects for impairment and adjust their accounting records accordingly to reflect the value of the projects.

Management Response:

The City will develop a "Policy and Procedures Manual" to evaluate fixed assets recorded to "Construction Work in Progress" in order to determine and record the current valuations prior to the end of FY 2010.

09-31 Insurance Reserves

The City is self-funded for various insurance coverages. The City did not calculate the incurred but not reported claims for self-funded insurance coverages.

We recommend that the City calculate the estimate for the incurred but not reported claims for each self-funded coverage.

Management Response:

The City's previous financial statements have recorded the value of "incurred but not reported claims". The auditors have recommended a new procedure which the City will adopt for FY 2010.

Miscellaneous:

09-32 Payroll Processed by ADP

The City uses ADP to process the Water, Wastewater and Traffic Funds' payroll. The payroll is processed and the journal entry to record it is processed separately from the City's main payroll system (Pentamation). Having two payroll systems causes some duplication of effort and creates a greater likelihood for error.

We recommend that the City integrate the Water, Wastewater and Traffic Funds' payroll into the Pentamation system so that all payroll is on one system.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Management Response:

There is no duplication of work due to the City using ADP for DPW and Parks while using the Pentamation system for all other cities employee payroll processing. The Office of C/T is researching payroll systems to determine best practices for payroll software and processes and, if necessary, the City will prepare an RFP to evaluate services and costs of a single payroll processing system.

09-33 Payroll Data Changes

The City does not have adequate controls over the entry in the payroll system of employee data changes such as pay rates and new employee additions. Payroll clerks make changes based on a Human Resources input form, however there is no review or approval to ensure the change was made properly.

We recommend that the City implement controls to verify the accuracy of any employee data changes.

Management Response:

The City disagrees with aspects of this finding. All change of status forms have to be signed by Human Resources as well as the Assistant CAO before changes can be made. The data changes for the ADP system are reviewed during the payroll process. The data changes for Pentamation were not. In FY 2010, a new process has been implemented whereby the Senior Accountant Payroll Manager runs an Employee Payroll Activity report to track and verify the accuracy of any changes on a weekly basis.

09-34 Stale Checks

Numerous stale, outstanding checks were noted in our examination of cash balances. The City needs to investigate why these checks have not been cashed and determine if they still owe these vendors money. They then need to either reissue the check if they can find the recipient or send the money to the State of Vermont as abandoned property. During fiscal year 2009, a review was performed however there is still a significant amount of items six months or older as outstanding items.

We recommend the City investigate all of their old checks and reissue new ones if deemed necessary or send the money to the State of Vermont as abandoned property if the recipient cannot be found.

Management Response:

In June of 2009, the City generated letters to anyone holding outstanding checks dated prior to December 31, 2007, as required by State Law. The City is currently reissuing checks with dates prior to December 31, 2008.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-35 Payment for Services in Cash – High School

The High School pays officials for sporting events in cash. The Administrative Assistant at the High School cashes a check and the officials are paid for services rendered at sporting events. The amount paid to each official is recorded, however, there is no controls over the amount paid and there is no documentation that the official received the cash. Also, there is no reconciliation between the amount of the check and the officials that were paid.

We recommend the High School process payments to officials through the accounts payable system like all other vendors.

Management Response:

The High School should be submitting payment requests to the School District's Accounts Payable department. The high school will be instructed to follow School District procedures and submit payment requests to the School District Accounts Payable department.

09-36 Cost Allocation Plan

The City has a cost allocation plan that describes how various costs and services that are centrally administered are allocated to the various funds and departments of the City.

There are a number of percentages, adjustments amounts and square footage that do not appear to have been updated or evaluated and/or are not supported by any information in the plan or other documentation.

It is critical for the City to have a well thought out, documented and defensible cost allocation plan. It is important so that utilities are charged appropriate amounts for rate setting and to ensure that the City complies with OMB and FAA requirements and requirements in Burlington Telecom's certificate of public good.

We recommend that the City update their cost allocation plan when changes occur. We also recommend that the City evaluate the plan to ensure that it is equitable and complies with OMB, FAA and Burlington Telecom's certificate of public good.

Management Response:

The City disagrees with aspects of this finding. The percentages and adjustments used in the Cost Allocation Plan for FY 2009 were changed from the prior year and were documented in an email from the CAO to the affected City departments. However, the City agrees that all changes in cost allocation need to be more fully documented to show how and why the change was made. In FY 2009, the square footage amounts were not changed and will be reviewed for the FY 2010 Cost Allocation Plan. Furthermore, in order to be in compliance with the Certificate of Public Good, the City will add a brief explanation of how Burlington Telecom allocates telephone and data costs across all the departments.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-37 Compliance with Accounting Requirements in Bond Resolutions

Certain Airport and Water Revenue Bonds are governed by bond resolutions which contain requirements to maintain a number of funds and accounts. The resolutions describe the flow of funds based on listed orders of priority.

The City has established some, but not all, of these funds and accounts and is not utilizing these accounts as revenue is earned and expenses are incurred.

We recommend that the City set up and utilize the various funds and accounts in the bond resolutions. We also recommend that the City amend, when it is feasible, the resolutions to eliminate the requirement for all the various funds and accounts.

Management's Response:

The City will establish the additional accounts required. The City concurs with the recommendation that the specific provisions of the Water Bond Resolution are archaic and should be eliminated if possible. The City will consult with Bond Counsel how best to address this finding.

Telecom Fund:

09-38 Certificate of Public Good Compliance Monitoring

The Telecom Fund operates under a Certificate of Public Good (CPG) issued by the State of Vermont Public Service Board. This CPG requires various provisions that the Telecom Fund is required to adhere to. Many of these provisions are financial related and require monitoring to ensure compliance. There are currently no controls or procedures in place to monitor and document compliance with the CGP.

We recommend that the Telecom Fund identify all significant compliance issues within the CPG and document the compliance on a yearly basis. We also recommend that controls be implemented to have an individual review and approve this documentation once it is completed.

Management Response:

Burlington Telecom, during FY 2010, will be implementing a formal process to review and monitor compliance on a quarterly basis.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-39 Revenue Assurance Auditing

The Telecom Fund does not have policies or procedures related to revenue assurance auditing. Revenue assurance auditing will provide a reconciliation between the Telecom operating system and the MACC billing system. This reconciliation will provide additional assurance that revenues are complete.

We recommend that the Telecom Fund implement policies and procedure to perform and document revenue assurance auditing.

Management's Response:

Burlington Telecom is in the process of implementing policies and procedures to perform and document revenue assurance auditing.

09-40 Interest and Penalties Charges

The Telecom Department does not charge its customers interest or penalties on late payments of their service billings. Charging these fees helps to prevent late payments by customers and will help to decrease the number of accounts with balances outstanding, effectively increasing the Telecom Departments cash flow.

We recommend that the Telecom Department consider charging their customers penalties and interest fees for late payments of their billings.

Management's Response:

Burlington Telecom reviewed the benefits of charging interest and penalties for residential customers, and determined that competitors did not charge interest or penalties and decided that Burlington Telecom would continue its practice of not charging interest and penalties in order to stay competitive. Burlington Telecom will review this research and recommendation with the CAO and Board of Finance

Burlington Telecom's commercial customer contracts have always stated that interest and penalties may be assessed.

09-41 Customer Credit Checks

The Telecom Department does not perform credit checks on their customers before providing services to them. Checking the credit history of potential customers before providing them services could help reduce the number of outstanding balances the Telecom Department has to collect.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

We recommend that the Telecom Department perform credit checks of all potential customers before providing them service.

Management Response:

Burlington Telecom reviewed the benefits of running customer credit checks. No other competitor issues credit checks and therefore, in order to remain competitive, Burlington Telecom does not conduct customer credit checks. Burlington Telecom will document this decision and obtain the CAO and Board of Finance's approval.

09-42 Approval of Fees

Currently, the Telecom Department's management sets and approves the fees for the Department.

We recommend that the City require the City Council to review and approve the fees of the Telecom Department to help ensure that the fees are set in accordance with the City's objectives for the Telecom Fund.

Management Response:

The City will review and consider this recommendation. However, historically, the management of Burlington Telecom determined pricing and product strategy and rates based on competitive market analysis, particularly with regard to commercial services. This practice reflected the competitive business environment in which Telecom operates. In 2009, the City Council authorized the Telecommunications Advisory Committee (TAC) to advise the City Council on the pricing set by

09-43 Review of Billing Adjustments

There are no internal controls in place requiring the review of billing adjustments performed by the Telecom Department. There are also no internal controls in place requiring documentation of the review of service credits performed by the Telecom Department.

We recommend that the Telecom Department design and implement internal controls to require documentation of their review and approval of all billing adjustments and service credits.

Management Response:

Burlington Telecom has internal controls in place for the review of service credits and review of billing adjustments. Burlington Telecom's management will review this internal controls with the independent auditors before the end of FY 2010. If accounting process and control improvements are necessary, Burlington Telecom will design and implement these during 1st Quarter FY 2011.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-44 Billing Controls

The Telecom Department utilizes a service organization to carry out all of their billing procedures. The Telecom Department provides information on services provided to customers to the service provider who prepares and sends customer billings based on that information. The service organization has a SAS 70 internal control report on its telephone billing services but does not include a review of the controls or testing of the controls over cable and internet billing services. One of the members of management of the Telecom Department reviews the SAS 70 report but does not document the review or how the Telecom Department is applying the user controls recommended by the service organization.

We recommend that the Telecom Department obtain documentation as to the service organization's procedures and controls regarding the internet and cable billings. The Telecom Department should also document the user controls and how they are being applied. The City should review the SAS 70 report and monitor the Telecom Department staff to ensure control procedures are being performed.

Management Response:

Burlington Telecom will communicate the auditor's recommendation to the service organization regarding the internet and cable billing.

The Division Manager of Business Office assumed the responsibility for obtaining and reviewing the SAS 70 report annually as indicated in the City of Burlington's FY 2008 response. The Division Manager will see that this report includes a review of the controls and how the controls are being applied and tested for telephone, cable and internet billing services and at year end, will review the annual report with Burlington Telecom's General Manager.

09-45 Telecom Fund Indebtedness

The Telecom Fund has borrowed funds for capital purchases and cash flow for operating expenses. Governmental accounting standards require the amount invested in property, plant, and equipment to be reflected in the financial statements. The City has not tracked the amount of borrowed funds invested in capital assets.

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

Management Response:

This statement refers to "debt proceeds". Burlington Telecom had no "debt proceeds" in FY 2009 as all funds utilized by Burlington Telecom were from the City cash pool. In addition, as indicated in the FY 2008 response, Burlington Telecom budgets and accounts separately for capital expenditures.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-46 Reconciliation of Billings to General Ledger

The Telecom Department does have any controls in place to ensure that the billings are reconciled to the general ledger in a timely manner. This reconciliation only occurred after year end to prepare for the audit.

We recommend that the billings be reconciled to the general ledger on a monthly basis.

Management Response:

Burlington Telecom agrees with the auditor's recommendation that this should be performed on a monthly basis. The exposure for non-compliance is limited since cash accounts are reconciled on a monthly basis.

09-47 Segregation of Duties relating to Accounts Receivable and Cash Receipts

Currently, the same person in the Telecom Department resolves accounts receivable disputes with customers and also posts customer payments to the account if the account number was not known by the service organization. There is no review of these entries.

We recommend that someone review all manual postings to customer accounts.

Management Response:

Burlington Telecom disagrees with the statement made by the auditors. The duties are segregated. Billing corrections and disputes are handled by customer service and payments are received by collections.

09-48 Accounts Receivable for Carrier Access Billing

The Telecom Department receives revenue from long distance carriers for the use of Telecom's lines which is known as carrier access revenue. The Telecom Department's carrier access billing is done by a service organization. The Telecom Department does not maintain an accounts receivable list for their carrier access billings.

We recommend that the Telecom Department design and implement controls to ensure that they maintain an accounts receivable list related to the carrier access billings and record all accounts receivable and revenue accurately.

Management Response:

Burlington Telecom will recognize the receivable at year end.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-49 Controls over Payments of Invoices

An invoice in the amount of approximately \$40,000 was paid twice to the same vendor by the Telecom Department. The overpayment was paid back to the Telecom Department after year end.

We recommend that the Telecom Department implement controls over disbursements to ensure that invoices are not being paid twice.

Management Response:

Burlington Telecom has implemented controls over disbursements to ensure that invoices are not paid twice.

09-50 Telecom Accounting

The Telecom Department staff was not aware of and did not have any accounting manuals that specifically includes generally accepted accounting principles for telecom companies.

We recommend that the Telecom Department obtain training and resources related to accounting for telecom companies.

Management Response:

Burlington Telecom will obtain training and resources related to accounting for telecom companies.

09-51 Payments to Employees

The Telecom Department is paying an employee as a subcontractor rather than through payroll. Internal Revenue Service regulations require that compensation paid to employees be paid as payroll.

We recommend that the Telecom Department pay all of their employees through the payroll system rather than as subcontractors to comply with Internal Revenue Service regulations.

Management Response:

It is the understanding of Burlington Telecom that this will be resolved in FY 2011.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-52 Capitalization Policy

The Telecom Department does not have a formal, written capitalization policy for fixed assets. Currently, all network equipment and installation expenses are being capitalized. This includes installation of new service at a location where the fiber and lines are already installed for a previous customer.

We recommend that the Telecom Department develop formal capitalization policies and procedures, considering the City's policies, telecom industry accounting standards and the needs of its business.

Management Response:

Burlington Telecom agrees with the recommendation of the auditors and will develop a formal capitalization policy and procedures.

09-53 Fixed Asset and Depreciation Software

The Telecom Department has no fixed asset software capable of maintaining accountability of each asset nor is there an inventory listing of fixed assets. Accordingly, there is no physical comparison of the actual assets versus the balance on the general ledger. Further, because there is no listing of the individual assets, there is no way to dispose of individual assets that may be lost, destroyed or sold. Depreciation is currently calculated using a spreadsheet and totals of additions for the year, instead of depreciating individual assets.

We recommend that the Telecom Department obtain depreciation software that identifies each asset for accountability and depreciation purposes. A physical inventory should be taken of the assets to ensure the data in the software is correct. The assets in the software should be compared periodically to the physical assets and the database adjusted.

Management Response:

The City agrees. Fixed asset accounting software is currently being implemented.

09-54 Useful Lives of Assets

There is no policy requiring the review of useful lives of the Telecom Department's capital assets for depreciation purposes.

We recommend that the Telecom Department develop a policy that requires a periodic review of the useful lives of property, plant and equipment based on industry standards and its own expectations.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Management Response:

Burlington Telecom agrees with the auditor's recommendation and will annually review the useful lives of assets.

Airport Fund:

09-55 Passenger Facility Charges Reporting

The City's Airport Fund is required by regulations to provide quarterly reports to the carriers collecting PFC revenues for the City. Currently, the Airport is not providing these reports to the carriers. The Airport indicated that no carrier ever requested this report.

We recommend that the Airport provide quarterly reports to the carriers or to make them available on their web site if the information is public and FAA agrees.

Management Response:

The Airport has started posting the required quarterly reports on the BTV web site. Airport's management has advised the carriers that this information is available in the "About BTV – Airport Development" section of the web page. In FY 2010, these reports will be posted quarterly.

09-56 Airport Parking Fee Memorandum of Understanding

The Traffic Fund provides the staff and support for the collection of parking fees at the Airport parking facility. The Traffic Fund retains a portion of the collections for administration costs and remits the balance to the Airport Fund on a monthly basis. Historically, the amount retained by the Traffic Fund was based on a memorandum of understanding between the two departments. During 2007, the methodology utilized to determine the amount retained by the Traffic Fund was amended. This amendment has not been documented.

We recommend that the City document the agreement between the two funds. The agreement should describe the current methodology of determining the amount of fees to be retained by the Traffic Fund for administration.

Management Response:

DPW has created a new agreement outlining the services that DPW Traffic will provide at the Airport's parking facility. The final agreement will be signed during FY 2010.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-57 Passenger Facility Charges Bank Account

Regulations require PFC revenues to be maintained in a separate interest bearing account or in with Airport capital funds. PFC revenue it is not kept in a separate interest bearing account with Airport capital funds as required as the Airport was unaware of the requirement.

We recommend that the Airport transfer the PFC balance to a separate interest bearing account.

Management Response:

The City Attorney's Office is currently reviewing this requirement and will advise the City how to proceed. In the interim, the City has established a separate account and is currently depositing said revenue into a separate account.

09-58 Passenger Facilities Charges Accounting Records

Regulations require the Airport to maintain a separate accounting record and allocate PFC revenues and interest earned to each approved application. The Airport does not maintain separate accounting records for revenue and interest earned for each approved PFC application as required as the Airport was unaware of the requirement.

We recommend that the Airport maintain separate accounting records for PFC revenue and interest earned for each approved application and allocate the revenue appropriately.

Management Response:

The City will establish and maintain separate accounting records for PFC revenue and interest for each approved application.

School Department:

09-59 Accrued Sick Leave

The School Department has not calculated what the sick liability is at year end for employees who have been employed for at least fifteen (15) years (ten (10) years for maintenance employees) who would be paid for it at termination. This information is required to be reported in the City's financial statements.

We recommend that the School Department calculate the accrued sick liability at year end for those employees who have been employed for at least fifteen (15) years or ten (10) years for maintenance employees.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Management Response:

The City agrees. The School Department will calculate and report in its year end financial statements its accrued liability for sick leave.

09-60 School Department 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.

Management Response:

The School Department does not pay into the Retirement Fund of the City. The City's General Fund pays the School Department's obligation to the Retirement Fund of the City. Non-teaching staff draw benefits from the City's retirement fund. The School Department will review with the Vermont Department of Education the specifics of the City Retirement Fund as defined in the Burlington City Charter in order to see if the retirement contribution should be reported on the statistical report to the State of Vermont for the School Department.

09-61 School Department Student Activities

The School Department's internal controls related to its student activity accounts appear to be insufficient. We noted several issues during our testing and observations at the following schools:

Flynn School and Champlain Elementary School:

- The Principal is not documenting his review and approval of the bank reconciliation and list of subaccounts confirming that they both agree to the general ledger balance. The Principal should document his review and approval of the bank reconciliation and list of subaccounts.
- The schools are depositing grant revenue into the student activities account and not notifying the Business Office of the School District. No grant money should go into these accounts. It should be sent to the Business Office of the School District where the tracking of revenue and expenses can be monitored.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Burlington Technical Center:

- The School does not review the club balances to determine if there are any inactive accounts should be eliminated. A review of the club balances should be performed and any inactive accounts should be eliminated.
- The Principal is not reviewing and documenting that the bank reconciliation and list of student activities balances agree. The bank reconciliations and list of student activity balances should be reviewed and documented by the Principal on a monthly basis.
- We noted one instance where a check had no supporting documentation. All checks should have supporting documentation on file.
- There were several instances where deposits did not have a deposit slip filled out by the advisor. All deposits should have a deposit slip filled out by the advisor.

Edmunds Middle School:

- There are no bank reconciliations being performed. In addition, the total of all student activity accounts are not being reconciled to the bank statement balance. There is also no controls in place to require the Principal of the school to review and approve bank reconciliations to ensure the summary of all student activity accounts agree to the bank statements and reconciliations. Bank reconciliations should be reconciled on a monthly basis and the list of student activity account balances should agree to the reconciliation. The Principal should review and approve the bank reconciliations to ensure all student activity agree to the bank statements and reconciliations.
- There are no controls in place regarding deposits. Each teacher or club advisor is responsible for making their own deposits. The teacher or club advisors do not always give the deposit slips and supporting documentation to the administrative assistant. The School should have controls in place to ensure that when a deposit is made the supporting documentation should be given to the administrative assistant who is in control of reconciling the accounts.
- The School is circumventing the purchase order system by using the student activity bank account to pay for expenses such as supplies which are budgeted for instead of sending the invoices directly to the Business Office of the School District to be paid. The School should send all invoices directly to the Business Office of the School District to be paid.
- The Principal does not approve supporting documentation before signing checks. There are no controls in place that require the Principal to review and approve supporting documentation before signing checks. The Principal should approve supporting documentation before signing checks.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Burlington High School:

- There are a number of accounts that appear not to be student activities such as scholarships, awards, athletic department revenue and expenses, revenue related to advertising on the Burlington High School activities and event sign located at the entrance of the High School, facility use fees, student parking, tuition fees, and professional development. These should be sent to the Business Office of the School District and treated as revenue and expenses. We recommend that the Principal and the Administrative Assistant review all accounts to determine if they are truly a student activity.
- There were several stale checks and deposits in transit that have not cleared. We recommend that stale checks and deposits in transit be researched and accounted for properly.
- Several disbursements that were tested did not have a check request. The School's policy is to have a check request for all disbursements. We recommend that the School ensure these are completed for all disbursements.

Hunt Middle School:

- When the administrative assistant enters information into the accounting software, they use the date they are actually entering the information and not the date the check was written or the date the revenue was received. We recommend they record revenues and expenses with the date the check was written or the date the revenue is received.
- The Principal is not reviewing and documenting that the bank reconciliation and list of student activities balances agree. The bank reconciliations and list of student activity balances should be reviewed and documented by the Principal on a monthly basis.
- The School does not review the club balances to determine if there are any inactive accounts should be eliminated. A review of the club balances should be performed and any inactive accounts should be eliminated.
- The School is depositing grant revenue into the student activities account and not notifying the Business Office of the School District. No grant money should go into this account. It should be sent to the Business Office of the School District where the tracking of revenue and expenses can be monitored.
- There were several instances where a check had no supporting documentation. All checks should have supporting documentation on file.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

The Business Office of the School District receives inadequate documentation from each school and has to spend a large amount of time of time trying to determine how to record the student activities cash and liability balances. Some of the schools have bank accounts that they use as an imprest account (i.e. HO Wheeler, On Top Program, and the Athletic Fund). However, the school's classify them as student activity accounts.

We recommend that the School District evaluate its procedures and controls related to student activities and implement controls over each school in regards to reconciling and reporting student activity account balances, making student activity deposits and disbursements and the use of the purchase order system. The School District should also evaluate all of their cash accounts to make sure they are classified correctly.

Management Response:

Fynn School

The School District's accounting staff will review the cash accounts at each school and meet with each School Principal to review the accounting deficiencies at each school and develop specific corrective action plans. Each School Principal will be responsible for making sure that proper accounting procedures are followed for all student activities accounts.

Burlington Technical Center:

The Burlington Technical Center Director will implement procedures to review club balances for accuracy and to identify and routinely address all inactive accounts. If there are accounts that have inactive balances, they should be transferred to the main administrative account in their student activities fund. The director will review and document the bank reconciliations on a monthly basis with the administrative assistant. The review will also include checking and obtaining adequate documentation of all checks issued along with the deposits made by class advisors.

Edmunds Middle School:

The Edmunds Building Principal will review the monthly bank reconciliation of the student activity accounts for the school with the administrative assistant and provide a signature approval of the reconciliation and student account balances. The Principal will verify that there is adequate supporting documentation for all deposits and checks. The Principal will review supporting documentation before signing checks. The Principal will verify that the school district purchasing procedures are not circumvented and that an approved purchase order from the business office is used for all purchases. Purchases will not be made out of an student activity account for school expenses that are part of the approved school budget as these purchases need to be made through the school district purchasing system.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Burlington High School:

The Burlington High School will review all account activity on a monthly basis for appropriate transactions that relate directly to student activities. If they do not relate directly to BHS student activities, then the funds collected will be sent to the Business Office. This includes scholarships, awards, revenue related to advertising on the Burlington High School activities event sign (located at the entrance of the High School), facility fees, student parking, tuition fees and professional development. The Principal will review with the administrative assistant all outstanding stale checks and in-transit deposits to ensure proper accounting. The Principal will make sure all check requests are appropriately documented before the disbursement is made.

Hunt Middle School:

The administrative assistant for Hunt Middle School will review the procedures for entering checks and deposits into the student activity accounting system in order to ensure the date matches the date the check is issued and the date the deposit is received. The Principal will review on a monthly basis the bank reconciliation for student activity accounts with the administrative assistant for accuracy and make sure the cash balance is reconciled to each student activity account. The Principal will ensure that all grant monies are forwarded directly to the Business Office and are not deposited in student activity accounts. The Principal will make sure procedures are followed for check approval and supporting documentation with the administrative assistant.

Single Audit Issues:

09-62 Grants Management Database/Schedule of Expenditures of Federal Awards

Criteria:

All entities that receive and spend Federal funds are required to track all such expenditures in order to determine if they are subject to a Single Audit under the requirements of OMB Circular A-133. They are also required to accurately report this information on a Schedule of Expenditures of Federal Awards.

Condition:

The City receives numerous grants for various projects throughout the City. The City has not designated one person to maintain a database tracking all of the grants received by each department. Also, several items were noted on the Schedule of Expenditures of Federal Awards that required further research by the City due to errors in its preparation including inaccurate grant numbers, changes to expenditure amounts, changes to grant award amounts and adding additional federal expenditures. One program that was missing resulted in an additional major program that had to be audited.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Cause:

Internal controls over the tracking of the City's grants are inadequately designed as are controls over the preparation and review of the Schedule of Expenditures of Federal Awards.

Effect:

It is often difficult to locate many of the City's grants and/or determine their requirements. Also, the City was unable to provide a complete and accurate Schedule of Expenditures of Federal Awards which resulted in the auditor not being able to determine all the major programs that had to be audited. Issues included using the inaccurate grant numbers, inaccurate expenditure amounts and inaccurate grant award amounts.

Recommendation:

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. 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 #.
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.

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.

Management Response:

The C/T Office is reviewing and revising the reporting process. The Office of C/T prepares the Schedule of Federal Awards by collecting all grant and related information from all the other City departments' designated grant individual. Errors and omissions are due to external department reporting and subsequently discovered by the auditors during field work. Starting FY 2011, the C/T Office will establish a more rigorous process for reviewing the information obtained from external departments. One approach under consideration is to have a designated staff person from the Office of C/T meet with external departments to review grant documents, grant amendments, financial status reports, billings and that department's reconciliations of expenditures to the General Ledger. The Clerk/Treasurer's Office will also research the availability of grant management software.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

09-63 Documentation of Time and Effort – Time Sheet and Time Sheet Controls

A School District whose employees' compensation is paid in part from a program must maintain time and effort records in accordance with OMB Circular A-87. The School Department implemented controls to have employees complete monthly time sheets to certify their time that are paid in part by a Federal program. However, we noted the following:

- One (1) out of fifteen (15) employees selected for testing was found to complete the wrong time certification. Per the contract, the employee was charged 100% to the Title I Grants to Local Educational Agencies. The employee did not complete the semi-annual certification. Once the error was found, the School District obtained the certification and updated their tracking sheet. Semi-annual certifications should be used to certify the time spent when charged 100% to a grant.

We recommend that the School Department improve its controls and procedures to be sure that employees are maintaining time and effort records in accordance with OMB Circular A-87.

Management Response:

The School Department will review its controls and procedures and conduct spot audits on a quarterly basis to make sure all employees are properly completing their time sheets and their semi-annual certification.

09-64 Budget Amendments

The Special Education Grant to States Grant indicates that if any line item in the detailed budget is to be increased by \$300 or 10% of that item, whichever is greater, the grantee needs to amend the grant. The School District has not established the appropriate controls to ensure any actual expenditures that are going to exceed the detailed budget by \$300 or 10%, whichever is greater, is amended before the expenditure occurs.

There were eight (8) instances when categories in the School District financial records did not have an approved budget amount in the grant agreement budget. There were three (3) instances when the amount spent exceeded the budgeted amount greater than \$300 or 10% of that item and a budget amendment was not done.

Questioned costs of \$21,533 were noted which is the difference between actual expenditures and the budget if that line item was \$300 or 10% above the budget.

We recommend that the School Department implement the necessary controls to ensure the actual expenditures are monitored and that when any line item increases over \$300 or 10%, whichever is greater, the grant is amended.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

Management Response:

School Department accountant will meet monthly with the School Department Special Education Director in order to ensure grant amendments are filed on a timely basis for budget line items that are either 10% or \$300 over, whichever is greater.

09-65 Suspension & Debarment

Non-Federal entities are prohibited from contracting with or making subawards of covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include those procurement contracts for goods or services that are expected to equal or exceed \$25,000 or meet certain other specified criteria of the government-wide procurement, debarment and suspension common rule which contains those additional circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-Federal entity enters into a covered transaction, the non-Federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

The City has a purchasing policy in place that outlines the policies and procedures over one-time purchases in excess of \$1,000 or on-going purchases in excess of \$1,500 in a fiscal year, which includes federal and non-federal funds. The policy does not include any information on how the City documents its compliance with regulations related to suspension and debarment for federal funds, except on the pre-qualification of construction contractor's form.

All construction contractors must go through a pre-qualification of construction contractor process. As part of the application, there is a question regarding if the contractor is suspended or debarred, however, the City does not document their review to ensure the contractor is not suspended or debarred. For the contractors selected for testwork, we verified through EPLS that the contractor was not suspended or debarred from receiving Federal funds.

The City also has contracts in place for services which do not require the pre-qualification process. The School District did not have any controls in place to ensure the individuals or contractor was not suspended or debarred from receiving Federal funds. For all contracts above \$25,000, we verified through the EPLS that the contractor was not suspended or debarred from receiving Federal funds. During fiscal year 2009, the School District included a clause in the contract.

The City has not established controls and procedures to ensure parties are not suspended or debarred from receiving Federal funds in accordance with compliance requirements.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

We recommend that the City include suspension and debarment as part of their purchasing policy and implement controls over their documentation of suspension and debarment. The documentation should include either verification by checking the EPLS website, a certification from the entity, or adding a clause to the contract.

Management Response:

The School Department will establish procedures in the School Business Office and School Grants Department to review all contracts that are \$25,000 or more to verify through EPLS web site that the contractor or other party is not suspended or debarred from receiving Federal Funds.

09-66 Listing of Title I Students

When performing procedures over Title I Grants to Local Educational Agencies eligibility, one targeted assistance are school listing of eligible students included students that did not received Title I Grants to Local Educational Agencies funds but other federal funds. This required us to make additional selections to test for eligibility.

We recommend the School District implement the necessary procedures to ensure the Title I Grants to Local Educational Agencies listings are accurate and up-to-date.

Management Response:

The School Department Grants Department will review the Title I eligible student list for targeted assistance at Local Educational Agencies for accuracy and will keep that list current in order to facilitate the year end audit process.

09-67 Documentation of Review of Federal Reports

The Airport Improvement Grant Program requires the submission of Financial Government Payment Report – Form 126 and the Operating and Financial Summary – Form 127 which are due to the Federal Aviation Administration on an annual basis by October 31st. The Airport does not have controls in place to ensure the reports are reviewed before submission.

We recommend the Airport implement the necessary controls to ensure the federal reports are reviewed and approved before submission.

Management Response:

The C/T Office Senior Accountant for the Airport prepares Forms 126 and 127 for the Airport Manager's review and approval. Beginning in FY 2010, the Airport Manager will sign and approve these two forms and provide the C/T Senior Accountant with written authorization to submit the forms to the FAA.