

Sullivan, Powers & Co.
CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL CORPORATION

77 Barre Street
P.O. Box 947
Montpelier, VT 05601
802/223-2352
802/223-3578 FAX

Fred Duplessis, CPA
Richard J. Brigham, CPA
Chad A. Hewitt, CPA
Wendy C. Gilwee, CPA
VT Lic. #92-000180

February 3, 2011

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, 2010 and have issued our report thereon dated February 3, 2011. 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. This letter does not include any deficiencies in internal control or other recommendations applicable to the Electric Department Fund. 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, 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 deficiencies in internal control and other recommendations to be material weaknesses in internal control.

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 deficiencies in internal control and other recommendations to be significant deficiencies in internal control.

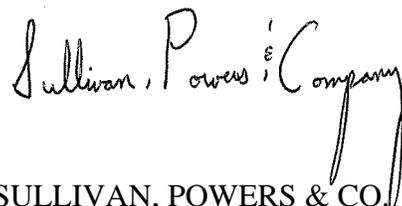
We have also noted other matters in the accompanying schedule of deficiencies in internal control and other recommendations and in the interim management letter dated July 8, 2010 that are opportunities for strengthening internal control and operating efficiency. We have discussed the recommendations 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 is not intended to be and should not be used for anyone other than these specified parties. 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.

Respectfully submitted,



SULLIVAN, POWERS & CO.
Certified Public Accountants

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Deficiencies in Internal Control:

Material Weaknesses:

10-1 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.

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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Management Response:

The School Department Business Manager will review and approve recurring journal entries on a monthly basis and non-recurring entries prior to posting to ensure accuracy and compliance with procedures and ensure that adequate supporting documentation exists.

10-2 Allowance for Doubtful Accounts Review

Criteria:

Internal controls should be in place to ensure the allowance for doubtful accounts calculation is reviewed for accuracy.

Condition:

The Airport calculated their allowance for doubtful accounts but it was done incorrectly. The City neglected to reduce the allowance by a \$160,000 payable to the same vendor.

Cause:

The City does not have internal controls in place to ensure they calculate the allowance for doubtful accounts correctly.

Effect:

Net receivables may be incorrect. The allowance for doubtful accounts was inaccurate at year end.

Recommendation:

We recommend that the City implement controls to ensure that the calculation of the allowance for doubtful accounts is done correctly.

Management Response:

A reserve for doubtful accounts will be established to reflect the anticipated collectible value of the related receivable account. Procedures will be reviewed in order to establish a realistic reserve based on past collection experience and anticipated losses on the receivables. The reasons for writing off an account will be adequately documented. In addition, the review of calculations and corresponding write-offs will have reviewed for accuracy prior to authorization.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

10-3 Review of Spreadsheets

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 including data, assumptions and the related calculations.

Condition:

Several of the City's departments prepare numerous schedules utilizing spreadsheets to calculate amounts recorded in the financial statements. However, the City does not have controls in place to require an individual review the schedules for accuracy of data, assumptions and calculations. For example, due to formula errors in spreadsheets, there was an adjustment of approximately \$400,000 to the Telecom Fund's depreciation. Other examples where the spreadsheets had either formula errors or wrong calculations were related to accrued interest, compensated absences the School Department, loans receivable discounts for CEDO and the ambulance allowance for doubtful accounts.

Cause:

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

Effect:

The City's account balances may be incorrectly calculated and supported due to spreadsheet errors. For example, the Telecom Fund utilizes Excel for tracking fixed assets and calculating depreciation and the spreadsheet formulas were inaccurate causing errors in the Telecom Fund's reporting of fixed assets.

Recommendation:

We recommend that spreadsheets supporting amounts recorded in the financial statements be reviewed and approved.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Management Response:

Burlington Telecom, CEDO and the School Department will develop a documented internal control procedure for reviewing and approving any report generated outside the integrated accounting applications, either through manual entry or export, to ensure data accuracy and validity. The process will require verification of the data by the creator of the report as well as a second staff member.

10-4 Uninsured Deposits

Criteria:

Internal controls should be in place to ensure that the City is monitoring the stability of the financial institutions where they have uninsured cash.

Condition:

The City had \$1,790,780 in a cash account held at JP Morgan Chase during the year and at June 30, 2010. The basic insured amount for a depositor at each bank is \$250,000 each for interest bearing and non-interest bearing accounts. The City was not monitoring the stability of JP Morgan Chase.

Cause:

Internal controls over monitoring banks and financial institutions are inadequately designed.

Effect:

The City's cash and investments could be at risk.

Recommendation:

Our primary recommendation is that the City monitor the stability of the financial institutions holding its deposits.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Management Response:

The \$1,790,780 was received by JP Morgan and Chase on June 25, 2010. The Clerk Treasurer's Office received funds for the Master Lease Purchase Agreement. The City of Burlington will ensure that future Master Leases are fully insured, and we will incorporate the legal language on future request of proposals.

10-5 Fund Balance

Criteria:

Internal controls should be in place to ensure that beginning fund balances are reconciled to the previous years' audit to ensure that all revenues and expenses are recorded accurately and the fund balances are not adjusted.

Condition:

The City adjusted fund balances when voiding stale checks in the amounts of approximately \$12,000 in the Traffic Fund, Airport Fund, Telecom Fund, General Fund and Southern Connector Fund. The City also closed out the 2008/2009 Master Lease Purchase Fund by adjusting the fund balance by \$522,625 and moving it to the General Fund instead of recording revenues and expenses. Adjustments were required to adjust the fund balances to the correct balances.

Cause:

Internal controls over reconciling fund balances are inadequately designed.

Effect:

Revenues, expenses and fund balances were misstated.

Recommendation:

We recommend that the City implement controls to ensure that fund balances are reconciled to the previous years' audit to ensure that all revenues and expenses are recorded accurately.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Management Response:

The Chief Accountant for the City will annually reconcile fund balances in all funds to the previous years' audit within 30 days of receipt of the audit. In addition, the Chief Accountant will conduct a quarterly review of fund balance entries to ensure that they are posted properly and in the correct fiscal year and accurately reflected.

Significant Deficiencies:

10-6 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.

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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

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:

The Clerk Treasurer's Office has an Accounting Manual that describes policies and procedures to ensure the effective and efficient use of all funds. Instructions were given to all departments that all current departmental accounting policies must be filed with the Clerk Treasurer's Office. All departments of the City will be directed to annually review the policies and procedures within the Accounting Manual, as well as their departmental accounting policies and notify the Clerk Treasurer's Office with any updates deemed necessary.

The School Department already has a manual in place and will review and update it to ensure it is in compliance with federal and state grantor requirements.

10-7 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.

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 and extended the accounting procedures manual to include other functions (cash disbursements, account reconciliations, etc) or 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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

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:

Departments have been directed to provide the Clerk Treasurer's Office with an outline of departmental internal controls surrounding all money collected and handled within their departments. In addition, on August 31, and September 1, 2010, the Assistant Chief Administrative Officers, working with a software provider for local governments since 1981, met with the Department of Public Works, Burlington Telecom, Burlington Airport, Burlington School Department and the Stormwater and Wastewater divisions for the purpose of completing a Business Process Map (BPM). The following outcomes were established:

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

1. Business Environment and Process identification: attained a full understanding of all the steps of a process.
2. Objectives and Risk Assessment: identified the objectives of the department, risks, and key controls in a process.
3. Interviews and Mapping: gained an understanding of the responsibilities and points of view of individuals within the process and reviewed software capabilities.

In addition, the Assistant Chief Administrative Officer for Finance completed a review of organizational needs that dealt with internal controls for allocations, billing, purchasing, procurement, and payroll. A review was also done to ensure future compliance with current accounting standards and/or government reporting requirements.

The School Department will assess its internal controls and document procedures already in place as well as develop procedures for those not in place.

10-8 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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

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:

At the direction of the Chief Administrative Officer, the Assistant Chief Administrative Officer for Finance has been charged with the responsibility of rebuilding the financial reporting and modeling of revenue generating departments; starting with the Burlington International Airport. As of January 1, 2011, the Burlington International Airport is now able to produce monthly financial reports utilizing an accrual method of accounting. Income Statements and Balance Sheets for the previous month are now available by no later than the 15th of the following month, while trend analyses of accounts receivables, capital project expenses and applicable grant reimbursements, debt coverage ratios and respective analyzed trends are distributed the third Monday of each following month to the Airport Commission and reviewed by the Clerk Treasurer's Office. The rebuilt financial reporting provides the necessary framework for an internal audit to be conducted on the all financial activities of the Airport. This new financial reporting framework will be implemented in all revenue generating departments during the fiscal year.

10-9 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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

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 Clerk Treasurer's Office will continue to conduct reviews of departmental operations and procedures to identify weaknesses. When weaknesses are identified, steps will be taken to reduce the risk of fraud. Department's will be provided guidelines to develop internal fraud risk assessments to be reviewed and approved by the Clerk Treasurer's Office. In addition, it is the intention of the Clerk Treasurer's Office to continue to conduct in depth reviews annually in high risk Departments and programs. These reviews will coincide with internal audits of departmental revenue to ensure that adequate internal controls are in place and being followed and that revenue reports being remitted accurately reflect the fiscal activities of departments. In addition, the Clerk Treasurer's Office will evaluate departmental purchasing practices and the handling of cash and deposits to ensure that they conform to existing policy.

10-10 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, 2010.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

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 is currently developing an RFP to purchase new software to encompass all forms of accounts receivable for better tracking and control. It is anticipated the RFP and procurement process will begin in April 2011. Currently, the City does not have the capability to use one specific software for all functions.

10-11 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:

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

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:

- 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 comparison done between the level of utilization and revenue reported.

Boathouse:

- There is no comparison between utilization statistics and revenue.

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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

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.

Management Response:

Leddy Arena:

The Parks Department and the Clerk Treasurer's Office have set a threshold of no more than \$500 cash on hand. Deposits are done daily or every other day at the minimum.

While it is true no receipts are given out for public skating the Arena has put monitoring in place during these events. A physical count and reconciliation of money collected is completed.

RecTrac has been installed at the Arena. It is the goal of the Clerk Treasurer's Office to work with all individuals using this software throughout Parks and City Arts to begin audit tracking and reconciliation.

Waterfront Parking Lots:

During FY 2010 most of the issues under Waterfront parking were addressed and corrections are in place. Attendants have been trained to provide receipts and signs are posted in all the booths. The cash registers have been programmed and all attendants are required and have been trained to generate receipts for those who park at no charge, except for handicap parkers who must display their handicap sign. In FY 2011 Parks Department staff is still reviewing the issue of utilization versus revenue reported. The City is procuring bids for automation of all revenue at this location.

Boathouse:

The Boathouse has been switched to RecTrac software. It is the Clerk Treasurer's Office's goal to work with all individuals using this software throughout Parks to begin audit tracking and reconciliation.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Special Events:

Special Events: The City is currently conducting a cost/benefit analysis in all aspects of revenue received during special events. It is anticipated that the City will have finalized this analysis by the end of May and implement any practicable controls by July 1, 2011.

10-12 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 created a policy requiring that edits that are being made to master files be monitored and approved. However, they have not been following this policy. 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 follow their policy 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's internal controls, referenced in the recommendation, were implemented in June of 2010. Since then Burlington Telecom has been conducting quarterly audits of the changes that are made to the billing master file.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Other Recommendations:

General City-Wide Issues:

City Finance Department Journal Entries

The City does have specific controls relating to the monitoring of journal entries to help ensure that every journal entry is made following the City's procedures. However, there were several instances where entries were being made to correct errors in original postings. The City needs to ensure that the person authorizing the journal entries is reviewing the journal entry and the supporting documentation to determine that the journal entry is accurate and understands the importance of the review process.

We recommend that the City review the procedures related to the approval of journal entries so that all staff understand the importance of this process. This will help alleviate the number of journal entry errors made and help to catch errors that do occur on a more timely basis.

Management Response:

The Clerk Treasurer's Office has established rules and regulations in place for all journal entries including, but not limited to, a Senior Accountant or higher level staff person reviewing journal entries along with their backup. The person signing the journal entry will be required to have a thorough knowledge of its contents to ensure that entries are correct. The fact that the City had recognized errors and made correcting entries proves that the rules and regulations in place are appropriate.

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.

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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Management Response:

A record of all contracts approved by the City Council and Board of Finance is maintained in both the City Attorney's office and the Clerk Treasurer's Offices. A policy stating that Departments must forward a copy of contracts and contract amendments entered into by a Department to the Clerk Treasurer's Office is already in place. The Clerk Treasurer's Office will conduct spot audits during invoice processing in an effort to ensure that contracts are on file and payment is being made in accordance with written contracts.

Revenue Recognition/Fraud Prevention:

Traffic Meter Receipts

The current system for collection of parking meter receipts has limited controls in place. There are no totals that are recorded from the meters that can be compared to what is deposited in the bank. 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. The City currently monitors collections by reviewing trends.

We recommend that the City continue to monitor the trends of meter collections and investigate any unusual variances, if possible. We also recommend that the City document this process.

Management Response:

The City has created policies and procedures for collecting meters, and is currently monitoring trends, and will continue to do so. The Department of Public Works, Traffic Division has received cost estimates to computerize meters and has determined that the cost of the software far exceeds the benefits.

City Arts Department Receipts

The City Arts Department collects money for various purposes. Donations are tracked using a receipt log. All other City Arts revenues are recorded in the RecTrac program. However, a reconciliation between the City Arts records and the City's Pentamation software are not being done on a timely basis.

We recommend that City Arts Department reconcile RecTrac to Pentamation on a monthly basis to ensure all revenue is recorded in the proper accounts and period and that they document their review. We also recommend that the list of all donations be reconciled to Pentamation on a monthly basis.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Management Response:

The City Arts Department is required to provide full documentation to the Clerk Treasurer's Office for all deposits. A receipts log has been created and is being reconciled with deposits. Documentation of the reconciliation is also being provided to the Clerk Treasurer's Office. The City will continue to work with City Arts to ensure better compliance and reconciliation of all revenue received.

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 dashboard 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 Clerk Treasurer's Office has established a policy requiring that the Parks Department maintain an accounting of all barter transactions and provides a list of all barter arrangements and appropriate Memoranda of Understanding to the Clerk Treasurer's Office. The City has identified two instances of bartering at the Parks Arena. Both of these were documented and a report was provided to the auditors on the value of the exchange. The City plans to adopt a policy requiring prior review by the Clerk Treasurer's Office of any barter transactions. The Assistant Chief Administrative Officers will review these arrangements for propriety and to ensure that there is a proper accounting of the transactions. If it is determined that either the arrangement is improper or that there is not a proper accounting of the transactions, then that barter arrangement will be discontinued.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Controls over Credit Cards

The City utilizes credit cards for travel and training expenses. The Human Resources Director receives the bill, however, the card is being used by other departments and they are not obtaining all the receipts and documenting what the charge was for. The Human Resources Director approves the payment without seeing the receipts. The City's policy for credit cards requires that the card holders to keep all receipts for all purchases but they don't require the department head to review and approve the statements and the receipts to ensure that all purchases are appropriate.

We recommend that the City implement internal controls over credit cards to ensure that all purchases have supporting receipts and they are approved by the department head to ensure they are appropriate.

Management Response:

The Clerk Treasurer's Office will review the list of all credit cards issued to authorized employees making purchases for the City of Burlington. The Clerk Treasurer's Office will ensure the proper use of credit cards and review the limits set for all users, and ensure all purchases must comply with purchasing and procurement policies. The Clerk Treasurer's Office will ensure that all cardholders are responsible for retaining documentation necessary for proof of purchase. In FY 2012, the City will develop controls over credit card usage and purchase through the creation of a standard operating procedure.

Accounting Issues:

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 2010, 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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Management Response:

The City with the help of the Public Works Department, Engineering Division, will establish the value of the existing work to date on the Champlain Parkway. The City will establish goals and policies to review all capital asset values on a yearly basis.

Review of Useful Lives of Property, Plant and Equipment

The City has not reviewed the useful lives of their property, plant and equipment in some time. During 2010, the City performed a physical inventory of their vehicles and buildings only. The City should perform a complete physical inventory of all of their property, plant and equipment on a regular basis.

We recommend that the City implement internal controls to ensure that they perform a physical inventory of all of their capital assets as well as evaluate the useful lives of the capital assets on a regular basis.

Management Response:

The Clerk Treasurer's Office will submit existing fixed assets to departments for review yearly, and develop a policy to report the disposal of fixed assets or the purchase of new assets. In addition, the Clerk Treasurer's Office will amend its policy on fixed assets to include a provision requiring the annual review of the useful life schedule as well as a provision that fixed assets are depreciated in an appropriate manner.

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 will annually require that the Health and Dental Plan Third Party Administrators provide a report within 90 days of the close of the benefit year detailing the incurred but not reported claims liabilities, with supporting documentation, for each or its respective benefit plans.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Reconciliation of Transfers and Due to/Due from Other Funds

The City makes numerous transfers between funds during the fiscal year and it is important that the transfers and due to/from other funds are in balance during the year and at year end. More research and time was required to search the City's records to identify all transfers and due to/due from other funds balances. For example, transfers are usually in operating transfer accounts but there was a transfer included in a revenue account and several transfers recorded in capital outlay accounts. Furthermore, the due to/from balances did not agree by an immaterial amount.

We recommend a schedule of transfers and due to/from's be prepared monthly to ensure the accounts balance across the funds and any differences be investigated and corrected at that time.

Management Response:

The Chief Accountant will reconcile interdepartmental transfers at the end of the fiscal year to ensure that the appropriate Due to/Due from designations is posted.

Classification of Expenditures

The City records certain non-capital projects in capital outlay budget lines. Examples of this include debt services payments, transfers and other operating costs not budgeted for elsewhere. However, the City does not have a process in place to convert the expenditures from the budgetary coding to appropriate line items for financial reporting. This overstated capital outlay and understated another expenditure line item, such as general government, public safety, public works or culture and recreation.

We recommend the City record all expenditures into an appropriate budget category or develop a process to convert the non-capital expenditures to a more appropriate category.

Management Response:

The Clerk Treasurer's Office plans to review and revamp its chart of accounts as part of the City's intention to acquire new financial management software. During this project, a complete coding dictionary will be developed as part of the chart of accounts to provide definitions and examples of types of transactions within each account. It is expected that this will significantly improve the accuracy and appropriateness of expense and revenue posting.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Miscellaneous:

Timesheet Approval

The City does not require salaried employees' monthly timesheets to be approved. The primary purpose of these timesheets is to account for leave time. The City does have a policy requiring leave time to be approved in advance but does not have a policy monitoring the leave actually taken.

We recommend that City require supervisors to review and document their approval of salaried employees' monthly timesheets.

Management Response:

The City Clerk Treasurer's Office has contacted Human Resources to develop a plan of action on time sheet approval. It is intended for the City to adopt a policy in FY 2011 for all departments to implement time sheet approval for most salaried individuals. In the case of Division Heads, the CAO or his designee will review and approve time sheets.

Compliance with Accounting Requirements in Bond Resolutions

The Airport Bonds are governed by bond resolutions which contain requirements related to various 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. The City's Bond Counsel has indicated that these do not need to be separate bank accounts and has agreed that the City can perform the calculations at the end of the year utilizing a spreadsheet, but this agreement is not documented.

We recommend that the City utilize the various funds and accounts in the bond resolutions. We also recommend that the City receive written clarification from Bond Counsel as to the acceptability of using a spreadsheet at the end of the year. We also recommend that the City amend, when it is feasible, the resolutions to eliminate the requirement for all the various funds and accounts.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Management's Response:

The Clerk Treasurer's Office has established the required funds and accounts for the Burlington International Airport, and has reserved the required funds in accordance with the Bond Resolutions. In addition, as previously reported, the City of Burlington has established a new financial package model designed to account for and track revenue and expenses as well as ensure that the 125% debt compliance required by the respective bond covenants are achieved.

Telecom Fund:

Revenue Assurance Auditing

The Telecom Fund developed procedures for video, telephone and internet access revenue assurance. 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. However, they only did this once in April for video and telephone and they also did not document this process.

We recommend that the Telecom Fund implement policies and procedure to perform and document revenue assurance auditing for video, telephone and internet access.

Management's Response:

In June, 2010, the policies and procedures for performing and documenting the revenue assurance auditing process were developed. A review of video revenue was conducted in FY 2010 for sales revenue through FY 2009. Beginning in FY 2011, Burlington Telecom will audit segments of each revenue source and document the audit process. This, in addition to the review of service orders, will ensure billing accuracy.

Review of Billing Adjustments

The Telecom Fund developed a service credits and adjustments policy during the year and started approving credits and adjustments part way through the year. However, they did not compare what they approved to a report from their billing system as the policy requires.

We recommend that the Telecom Fund implement internal controls to ensure that all billing adjustments and service credits approved are reconciled to the billing system.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Management Response:

Burlington Telecom will follow the already implemented policy, which provides for an internal control to ensure that all adjustments and service credits approved are reconciled to the billing software.

Billing Controls

The Telecom Fund utilizes a service organization to carry out all of their billing procedures. The Telecom Fund 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. During 2010, a management staff member did review the SAS 70 report and noted responses to the report, however they did not identify user controls.

We recommend that the Telecom Fund obtain documentation as to the service organization's procedures and controls regarding the internet and cable billings. The Telecom Fund should also document the user controls and how they are being applied for the telephone, internet and cable billing services.

Management Response:

Burlington Telecom utilized a service organization to prepare the monthly billing. The SAS 70 report covers the internal controls of the service organization's telephone billing services only. The video and internet billing are fees that are transferred to the billing provider and require no internal controls on their part. Burlington Telecom's internal procedures and controls for reviewing the service orders and billing master file maintenance ensure the accuracy of the data submitted to the billing organization for processing. Burlington Telecom does agree that the SAS 70 user controls should be documented. This component will be added to the SAS 70 procedure already in place.

Fixed Asset and Depreciation Software

The Telecom Fund 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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

We recommend that the Telecom Fund 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:

Burlington Telecom has compiled an inventory of fixed assets for 2010-2011. Said inventory is being maintained to account for the useful life of an asset, additions, deletions, and disposals. Individual depreciation is calculated annually for audit. In lieu of Burlington Telecom utilizing the City's financial management software for the managing of fixed assets, an Excel spreadsheet has been designed to accomplish this work. Burlington Telecom will research the costs associated with the implementation of fixed asset and depreciation software.

Airport Fund:

Passenger Facility Charges Reporting

The City's Airport Fund is required by regulation to provide quarterly reports to the carriers collecting PFC revenues for the City. The Airport posted the September 30, 2009 quarterly report on the Airport's website, however, the remaining quarters for fiscal year 2010 were not posted.

We recommend that the Airport provide quarterly report to the carriers or post each quarterly report on the Airport website or ensure the information is available to the carriers.

Management Response:

Burlington International Airport will submit copies of quarterly reports to the FAA on the collection, use, and holdings of our PFC funds as well as an annual report on expected PFC revenues for the ensuing fiscal year. The Clerk Treasurer's Office will ensure that the airport provides the quarter report to our carriers, and post each quarterly report on the Airport website. Our new policy will require that the filing of the quarterly report be verified for accuracy by the Chief Accountant or the Assistant Chief Administrative Officer (CAO) for Finance. A copy of the submitted report to the FAA will be sent to the Assistant CAO for Finance.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Passenger Facility Charges Bank Account

Regulations require PFC revenues to be maintained in a separate interest bearing account or in with Airport capital funds. An account was established and the revenue received during fiscal year 2010 has been maintained in a separate interest bearing account, however, the total restricted balance has not been transferred to date.

We recommend that the Airport transfer the total restricted PFC balance into the separate interest bearing account.

Management Response:

In May 2010, the City of Burlington has established a separate interest bearing account for the Burlington International Airport PFC revenues. Subsequently, all restricted PFC funds have been transferred to this account. We have ascertained that PFC revenue remitted to public agency is kept and accounted for in accordance with Section 158.67(b) requirements. We maintain separate accounting records, and are able to show PFC revenues received, interest earned, amounts expended on each approved project, and that amounts reserved for approved projects are in compliance. In addition, the PFC interest bearing account will be reconciled on a monthly basis.

Reconciliation of Accounts Receivable

The City's Airport Department does not reconcile the accounts receivable in the general ledger to their subsidiary ledgers.

We recommend that the City's Airport Department reconcile accounts receivable in the general ledger to subsidiary ledgers.

Management Response:

We have reviewed our process, and we will ensure that journal entries are posted promptly after invoice generation. The Clerk Treasurer's Office will reconcile the subsidiary ledger to the accounts receivable summary total on a monthly basis.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Water and Wastewater Departments:

Reconciliation of Cash Register Receipts to Billing System

The City's Water and Wastewater Departments use a cash register to collect cash and checks for customers coming in to make payments. The cash register is not connected to the billing system. At the end of each day, someone from the billing department has to enter all of the transactions for the day into the billing software. In addition, no one is comparing the z report from the cash register to the billing software to ensure that all receipts are recorded accurately.

We recommend that the City's Water and Wastewater Departments implement internal controls to ensure that the cash register records are reconciled to the billing system to ensure all cash receipts are being recorded accurately.

Management Response:

We believe that the cash register records are in fact reconciled to the billing system and are being recorded accurately. The payments made at the register are processed as a separate batch and scanned or manually entered, as all payments are done. Specifically, the Z report from the cash register is a summation of all checks and cash received through the register. All payment stubs that have been entered accompany any cash or check payment into the billing program. The batch total is then compared to both the Z report and the batch. We have explored the possibility of electronically connecting our register to the software, but because of the small volume of customers paying in person, it does not justify the expense.

Monitoring of Voids and Credits

The City's Water and Wastewater Departments do not have internal controls in place to ensure that voids and credits are being monitored. Currently, no one is reviewing the voids on the cash register receipts or obtaining explanations for them. Also credits can be given by any of the billing personnel. The credits are reviewed by the person who does the billing, however, no one is reviewing the credits that she has done.

We recommend that the City's Water and Wastewater Departments implement internal controls to ensure that voids and credits are being monitored and approved by an individual unable to do voids and give credits.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Management Response:

Voids

The Public Works Department will establish a procedure whereby the void receipt be attached to a newly created form, which would have an explanation of the void and signature of the Utility Billing Coordinator. Additionally, the number of voids and monetary total of voids will be recorded on the cash receipt report, which gives daily payment totals. The cash receipt report, under current policy, will be provided to the Department Head and the Assistant Director for review.

Credits

Currently only the Customer Service Representatives and the Utility Billing Coordinator are able to post billing changes to the utility software. The Utility Billing Coordinator is not required to sign the report generated by a billing change. However, changes are reviewed during the balancing process. The current policy and procedure will be amended to require that all credits be accompanied by a written explanation and that the signature of the Utility Billing Coordinator or Assistant Director for credits over \$100 and \$300, respectively.

School Department:

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 will determine if the retirement contribution should be reported in the statistical report.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

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.

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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

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.

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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

- 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.

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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Management Response:

The School Department will implement and document controls that will require monthly reconciliation and reporting of school activities accounts by the school principal to the business office as well as require compliance with cash and purchasing controls. Accounts will be monitored and problems reported to the School Board Finance Committee.

Grant Issues:

Grants Management Database/Schedule of Expenditures of Federal Awards

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.

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. It is often difficult to locate many of the City's grants and/or determine their requirements. 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 changes to expenditure amounts and adding additional federal expenditures.

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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Management Response:

The Clerk Treasurer is reviewing and revising the reporting process. Beginning in June of 2010, departments are required to complete grant information forms on all grants. The Clerk Treasurer prepares the Schedule of Federal Awards by collecting all grants and related information from all City departments' designated grant individuals. Errors and omissions are due to external department reporting and subsequently discovered by the auditors during field work.

Beginning in FY 2012, the Clerk Treasurer's 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 Clerk Treasurer's Office meet with external departments to review grant documents, grant amendments, financial status reports, billings and that department's reconciliation of expenditures to the general ledger. The Clerk Treasurer's Office is also researching the availability of grant management software.

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.

There were three (3) instances when categories in the School District financial records did not have an approved budget amount in the grant agreement budget. There were fifteen (15) instances when the amount spent exceeded the budgeted amount greater than \$300 or 10% of that item and a budget amendment was not done. All of the instances related to the category of Professional and Technical Services. In addition, one (1) instance related to the ARRA grant.

Questioned costs of \$33,844 were noted which is the difference between actual expenditures and the budget if that line item was \$300 or 10% above the budget. \$32,348 related to the IDEA B Basic grant and \$1,496 related to the IDEA B - ARRA grant.

We recommend that the School District monitor the grant agreement budget on a regular basis to determine when the budget needs to be amended.

Management Response:

The Business Office is meeting with the Special Education Director monthly to monitor and ensure compliance with all amendment requirements.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL AND OTHER
RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010

Reconciliation of Federal Reports

The Burlington Airport is required to submit Federal Aviation Administration Form 126 and 127 on an annual basis. The revenues and expenses for the Airport include multiple accounts which require reconciliation between the report to be filed and the general ledger. The June 30, 2010 report that was filed excluded approximately \$11,000 of expenses.

We recommend that the Burlington Airport reconcile the report to be filed back to the general ledger detail before submitting it.

Management Response:

The Burlington Airport will reconcile all financial reports generated in accordance with State and Federal agencies with the general ledger prior to submission. To ensure compliance, the Chief Accountant, or the Assistant CAO will review and approve all reports and forms prepared for submittal.