

CITY OF BURLINGTON, VERMONT

Independent Auditors' Reports Pursuant
to Governmental Auditing Standards
and The Single Audit Act Amendments of 1996

For the Year Ended June 30, 2014

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Additional Offices:

Andover, MA
Greenfield, MA
Manchester, NH
Ellsworth, ME

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Independent Auditors' Report

To the Honorable Mayor and City Council
City of Burlington, Vermont

Report on Compliance for Each Major Federal Program

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Burlington, Vermont (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 12, 2015. Our report includes a reference to other auditors who audited the financial statements of the School Department and Electric Department as described in our report on the City of Burlington, Vermont's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Burlington Electric Department were not audited in accordance with Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We consider the deficiencies described as items 2014-001 through 2014-004 in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Government's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's

internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Melanson Heath

February 12, 2015

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

Independent Auditors' Report

To the Honorable Mayor and City Council
City of Burlington, Vermont

Report on Compliance for Each Major Federal Program

We have audited the City of Burlington, Vermont's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operation of the Burlington School District (a City School Department) which expended \$5,947,590 in federal awards which is not included in the City's Schedule of Expenditures of Federal Awards for the year ended June 30, 2014. Our audit, described below, did not include the operations of the Burlington School District (a City School Department) because a separate single audit in accordance with OMB Circular A—133 was performed on the Burlington School District.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is

a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 12, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Melanson Heath

March 26, 2015

CITY OF BURLINGTON, VERMONT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Grant Title Pass Through Grantor/ Federal Grant/Program Title	Federal Catalogue Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>		
Community Development Block Grants - Entitlement Grants	14.218	\$ 639,874
HOME Investment Partnership Program	14.239	295,192
Community Development Block Grants - Continuum of Care	14.246	7,207
Lead-Based Paint Hazard Control Program	14.900	<u>1,087,667</u>
Total U.S. Department of Housing and Urban Development		2,029,940
<u>U.S. Department of Interior</u>		
American Battlefield Protection Program	15.926	36,150
Passed through State of Vermont Division for Historic Preservation Historic Preservation Fund Grants-in-Aid	15.904	<u>4,752</u>
Total U.S. Department of Interior		40,902
<u>U.S. Department of Justice</u>		
Internet Crimes Against Children (ICAC)	16.543	212,059
Bulletproof Vest Partnership Program	16.607	2,445
Edward Byrne Memorial Justice Grant Program	16.738	61,249
Internet Crimes Against Children (ICAC) - ARRA	16.800	44,085
Passed through State of Vermont Center for Crime Victim Services Crime Victim Assistance Grant	16.575	<u>117,000</u>
Total U.S. Department of Justice		436,838
<u>U.S. Department of Transportation</u>		
Airport Improvement Program	20.106	6,511,338
Small Community Air Service Development	20.930	450,000
Passed through State of Vermont Agency of Transportation Federal Highway Administration	20.205	960,188
National Highway Traffic Safety Administration	20.600	<u>4,650</u>
Total U.S. Department of Transportation		7,926,176
<u>Environmental Protection Agency</u>		
Brownfields Area-wide Planning	66.814	<u>52,593</u>
Total Environmental Protection Agency		52,593
<u>Corporation for National and Community Service</u>		
Passed through State of Vermont Commission on National and Community Services AmeriCorps State	94.006	<u>269,422</u>
Total Corporation for National and Community Service		269,422

(continued)

(continued)

Grant Title Pass Through Grantor/ Federal Grant/Program Title	Federal Catalogue Number	Federal Expenditures
<u>Federal Emergency Management Agency</u>		
Passed through State of Vermont Agency of Transportation Emergency Management Grant - Disaster Relief	97.036	<u>6,575</u>
Total Federal Emergency Management Agency		6,575
<u>U.S. Department of Homeland Security</u>		
Passed Through State of Vermont Department of Public Safety Homeland Security Program	97.067	<u>112,708</u>
Total U.S. Department of Homeland Security		112,708
<u>U.S. Department of Transportation Security Administration</u>		
Law Enforcement Officer Reimbursement Agreement Program	97.090	<u>159,006</u>
Total U.S. Department of Transportation Security Administration		<u>159,006</u>
Total Federal Awards		<u><u>\$ 11,034,160</u></u>

Subrecipients:

Of the Federal expenditures presented in this schedule, the City of Burlington, Vermont provided Federal awards to subrecipients as follows:

<u>Program Title</u>			
Community Development Block Grants - Entitlement Grants	14.218	\$	238,592
Edward Byrne Memorial Justice Assistance Grant Program	16.738		<u>8,000</u>
Total		\$	<u><u>246,592</u></u>

The Schedule of Federal Awards includes the Federal grant activity of the City of Burlington, Vermont and was prepared using the significant accounting policies in Note 1 to the financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations". Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See Independent Auditor's Report on Compliance with OMB A-133.
State identifying numbers were not available for pass-through grants listed above.

REPORT ON COMPLIANCE WITH REQUIREMENTS OF THE PASSENGER
FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE PASSENGER FACILITY CHARGE
AUDIT GUIDE FOR PUBLIC AGENCIES

Independent Auditors' Report

To the Honorable Mayor and City Council
City of Burlington, Vermont

Report on Compliance for the Passenger Facility Charge Program

We have audited the Burlington International Airport's compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies (the Guide)* issued by the Federal Aviation Administration, applicable to its passenger facility charge program that could have a direct and material effect on the Airport's passenger facility charge program for the year ended June 30, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Airport's passenger facility charge program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits

contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Burlington, Vermont's (the City) compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Passenger Facility Charge Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Passenger Facility Charge program for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the Passenger Facility Charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Passenger Facility Charge program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in inter-

nal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Passenger Facility Charge Audit Guide for Public Agencies*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Revenues and Expenditures of Passenger Facility Charges

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 12, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of revenues and expenditures of passenger facility charges is presented for purposes of additional analysis as required by the *Passenger Facility Charge Audit Guide for Public Agencies*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Melanson Heath

March 26, 2015

CITY OF BURLINGTON, VERMONT
SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED
FOR THE YEAR ENDED JUNE 30, 2014

Balance- July 1, 2013	\$ 4,096,251
Passenger Facility Charges Collected	2,491,807
Interest Earnings	5,128
Passenger Facility Charges Expended	<u>(2,749,516)</u>
Balance- June 30, 2014	<u><u>\$ 3,843,670</u></u>

CITY OF BURLINGTON, VERMONT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

Type of auditors' report issued on compliance for major programs:

Community Development Block Grant – Entitlement	Unmodified
Lead-Based Paint Hazard Control	Unmodified
Airport Improvement Program	Unmodified
Highway Planning and Construction	Unmodified
Small Community Air Service Development	Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218/14.246	Community Development Block Grant -Entitlement
14.900	Lead-Based Paint Hazard Control
20.106	Airport Improvement Program
20.205	Highway Planning and Construction
20.930	Small Community Air Service Development

Dollar threshold used to distinguish between type A and type B programs: \$331,025

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

<u>Finding #</u>	<u>Finding/Noncompliance</u>
2014-001	<p><u>Continue to Improve Monthly Reconciliations (Material Weakness)</u></p> <p><u>Prior Year Recommendation:</u> In the prior year, we recommended that the City re-establish the process of reconciling all key general ledger accounts on a monthly basis. Implementation of this recommendation will increase the reliability of interim financial reports and help to minimize the risk of undetected errors and or irregularities.</p> <p><u>Current Year Status:</u> In fiscal year 2014, the City made significant improvements in monthly general ledger reconciliations process. As a result, the process of closing the year was approximately two months earlier than fiscal year 2013. However, during the 2014 audit process (November 2013), the City was still posting journal entries and/or evaluating fiscal year 2014 operating results in the following areas:</p> <ul style="list-style-type: none">• Capital project fund accounting• Interdepartmental charges• Amounts due from BED• Overall general fund budgetary results <p><u>Further Action Needed:</u> We recommend the City continue with the general ledger reconciliation improvements made during fiscal year 2014, and specifically address the above noted areas in fiscal year 2015.</p> <p><u>City's Response:</u> The Office of Clerk Treasurer agrees with this finding and will specifically address the above-noted areas in fiscal year 2015.</p>
2014-002	<p><u>Implement Regular Internal Audits (Material Weakness)</u></p> <p><u>Prior Year Recommendation:</u> In the prior year, we recommended the Clerk/Treasurer's Office establish a schedule for periodic internal audits of departmental accounting records. This would result in improved oversight and reduce the risk of errors or irregularities occurring and going undetected.</p> <p><u>Current Year Status:</u> During fiscal year 2014, the City performed examinations of certain transactional cycles including banking, accounts payable and purchasing.</p> <p><u>Further Action Needed:</u> We recommend that the City expand on the internal audits that began in fiscal year 2014 and build a more robust schedule of audits including (but not limited to):</p>

Finding #

Finding/Noncompliance

- Billing cycles
- Departmental receipts
- Vendor monitoring
- Payroll

City's Response:

In September 2014, the City of Burlington implemented the Committee of Sponsoring Organization of the Treadway Committee (COSO) model, which established a framework for internal control. Implementing the COSO model was fully supported by the BOF, City Council, and top management. The COSO model is now part of our culture at the City, and part of our daily work life. This model extensively safeguards our cash and assets. In addition, the BOF and City Council approved the creation of an external audit committee. Once members are appointed, this Committee will work with the BOF to utilize and fully deploy the COSO model, and establish a schedule for periodic internal audits of departmental accounting records.

2014-003

Restrict Ability to Edit Payroll Rates (Material Weakness)

Our walk-through testing of the City's payroll processing disclosed that individuals other than the Human Resources Department have access and the ability to edit the payroll rates. As a result, unauthorized changes could be made increasing the possibility of errors or irregularities occurring and going undetected.

We recommend that the City restrict the access to edit the payroll rates to the Human Resources Department. This will reduce the risk of errors or irregularities occurring and going undetected.

City's Response:

Pay rate changes require a Change of Status (COS) form before any employee's pay rate changes are entered into the payroll system. This form must be filled out and approved by the Department Manager, Human Resources, and the Payroll Office. Due to requirements in the City's union contracts, the payroll team must have the ability to make changes to rates of pay to account for longevity pay, shift differentials, certifications, and annual Cost Of Living Allowances (COLA). The payroll staff must have this ability to ensure timely disbursement of the weekly payroll. Additionally, all paystubs will show rates of pay for all hours worked to reduce the risk of pay rates being paid without proper authorization beginning January 1, 2015. This will result in a detailed record, audit trail of rates paid, and a record of any changes to rates of pay. The Payroll Manager and Assistant CAO will develop an automated weekly pay rate report to further reduce the risk associated with human error and fraud. This will be reviewed and signed off by the Human Resource Office and Office of Clerk Treasurer. These changes will ensure that the rates paid are authorized and in good standing.

2014-004

Continue to Segregate Cash Reconciliation Duties (Material Weakness)

A significant portion of the bank account reconciliations are being performed by an individual that also is involved in creating and posting journal entries and is authorized to make wire transfers. As a result, a lack of segregation of duties exist that increases the risk that errors or irregularities could occur and go undetected.

Finding #

Finding/Noncompliance

We recommend that the City segregate the job responsibilities noted above so that the individual responsible for bank account reconciliations is restricted from posting journal entries and authorizing bank wire transfers. This would result in improved oversight and reduce the risk of errors or irregularities occurring and going undetected.

City's Response:

The Office of Clerk Treasurer has used the expertise of Amy Mailloux, Vice President, Treasury Advisor at Keybank, to ensure that a segregation of duties exist and to ensure that posting of journal entries and all authorized wire transfers have a level of security and clear segregation of approval. Formal meetings with Keybank began on July 22, 2013, and they included expertise and feedback from other banking partners. The review process was a formal six-month review process. They formally mapped out and analyzed our work flows. The review identified five areas to focus on including ACH wires, positive pay to prevent check fraud, check issuance practices, and use of a procurement card for better purchasing control. With each of these items, they reviewed the process, identified the risks, and evaluated recommendations to mitigate the risks. They determined that no wire transfers will be initiated by the Assistant CAO for Finance, but rather by a Senior Accountant. They require additional approval from the Chief Accountant or Assistant Chief Accountant. The authority to make journal entries is held only by the Assistant CAO and senior accountants in the Clerk/Treasurer's Office. Each journal entry is reviewed and approved by a person at a higher level of authority than the preparer. Based upon these procedures and the mitigating controls implemented we have significant oversight, have reduced the risk of errors or irregularities, and have significantly reduced the probability of fraud.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.

SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>
2013-012	Highway Planning and Construction 20.205	<p><u>Ensure an Approved Indirect Cost Rate is Maintained (Compliance Finding)</u></p> <p><u>Prior Year Recommendation:</u> We recommended the City obtain the State's approved indirect cost rate to ensure all charges to the Federal award are allowable.</p> <p><u>Current Year Status:</u> Finding 2013-012 was resolved in the current year.</p>

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>
2013-013	Highway Planning and Construction 20.205	<p><u>Improve Documentation of City Matching Requirements (Compliance Finding)</u></p> <p><u>Prior Year Recommendation:</u> We recommended the City improve documentation related to matching requirements for Federal awards to ensure the match is met for each fiscal year of the project, and the funds used for the match are allowable per the award documents.</p> <p><u>Current Year Status:</u> Finding 2013-013 was resolved in the current year.</p>
2013-014	Highway Planning and Construction 20.205	<p><u>Improve Controls over Accounting Records (Material Weakness)</u></p> <p><u>Prior Year Recommendation:</u> We recommended the City establish stronger internal controls to minimize journal entries.</p> <p><u>Current Year Status:</u> Finding 2013-014 was resolved in the current year.</p>