

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, 2011

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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*

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

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 of Burlington, Vermont, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 15, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*Additional Offices:*

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

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. We consider the deficiencies described as items 11-2 through 11-10 in the accompanying schedule of findings and questioned costs to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 11-11 to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the schedule of findings and questioned costs as item 11-1.

We noted certain matters that we reported to management of the City in a separate letter dated March 15, 2012.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Melanson, Heath + Company P. C.*  
Nashua, New Hampshire  
March 15, 2012



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REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the City of Burlington, Vermont's 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 its major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2011.

### Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 11-12. *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.

### Schedule of Expenditures of Federal Awards

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, 2011, and have issued our report thereon dated March 15, 2012. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Melanson, Heath + Company P.C.*

Nashua, New Hampshire  
March 28, 2012

CITY OF BURLINGTON, VERMONT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011

Grant Title Pass Through Grantor/ Federal Grant/Program Title	Grant Number	CFDA Number	Grant Amount	FY 2011 Expenditures
<b><u>U.S. Department of Agriculture</u></b>				
Passed through State of Vermont Department of Education				
Child Nutrition Cluster:				
School Breakfast Program	4452	10.553	\$ 608,006	\$ 608,006
After School Snack Program	4448	10.555	47,466	47,466
National School Lunch Program	4450	10.555	771,477	<u>771,477</u>
Total Child Nutrition Cluster:				1,426,949
Commodities Food Distribution	4456	10.550	109,221	109,221
Food Equity	4446	10.579	13,222	13,222
Fresh Fruit and Vegetable	4449	10.582	76,576	60,858
Passed through State of Vermont Department of Forests, Parks & Recreation				
Urban Tree Canopy Redesign Grant	06130-TCA-BUR-11	10.664	20,000	<u>3,000</u>
Total U.S. Department of Agriculture				1,613,250
<b><u>U.S. Department of Housing and Urban Development</u></b>				
Direct Programs				
CDBG - Entitlement Grant Cluster:				
Community Development Block Grants/Entitlement Grants	B-07-MC-50-0001	14.218	908,540	10,583
Community Development Block Grants/Entitlement Grants	B-08-MC-50-0001	14.218	879,905 (1)	15,521
Community Development Block Grants/Entitlement Grants	B-09-MC-50-0001	14.218	893,027	387,807
Community Development Block Grants/Entitlement Grants - ARRA	B-09-MY-50-0001	14.253	238,821	172,140
Community Development Block Grants/Entitlement Grants	B-10-MC-50-0001	14.218	964,858	<u>706,182</u>
Total CDBG - Entitlement Grant Cluster				1,292,233
HOME Investment Partnership Program	M-08-MC-50-0200	14.239	489,759	112,876
HOME Investment Partnership Program	M-09-MC-50-0200	14.239	547,141	237,199
HOME Investment Partnership Program	M-10-MC-50-0200	14.239	544,655	55,046
Community Development Block Grant - Brownfields Economic Development Initiative (BEDI)	B-09-BD-50-8013	14.246	1,040,000	73,117
Community Development Block Grants - Section 108 Loan Guarantees	B-08-MC-50-0001	14.248	2,091,000	103,557
Economic Development Initiative Special Project - Neighborhood Initiative and Miscellaneous Grants	B-09-SP-VT-0094	14.251	166,250	5,683
Lead-Based Paint Hazard Control in Privately-Owned Housing	VTLHB0374-07	14.900	2,865,629	644,081
Passed through State of Vermont Agency of Commerce & Community Development				
Neighborhood Stabilization Program	07110-NSP-Burlington	14.228	1,330,600	<u>338,869</u>
Total U.S. Department of Housing and Urban Development				2,862,661

(continued)

(continued)

Grant Title Pass Through Grantor/ Federal Grant/Program Title	Grant Number	CFDA Number	Grant Amount	FY 2011 Expenditures
<b><u>U.S. Department of Interior</u></b>				
Direct Programs				
American Battlefield Protection Program	GA-2255-08-004	15.926	43,982	3,371
Passed through State of Vermont Division for Historic Preservation				
Historic Preservation Fund Grants-in-Aid	CLG-VT-10-01	15.904	2,208	2,208
Historic Preservation Fund Grants-in-Aid	CLG-VT-09-011	15.904	10,000	5,000
Total U.S. Department of Interior				10,579
<b><u>U.S. Department of Justice</u></b>				
Direct Programs:				
Missing Children's Assistance	2007-DD-BX-K078	16.543	449,999	9,430
Internet Crimes Against Children (ICAC)	2010-MC-CX-K020	16.543	214,061	149,804
Bulletproof Vest Partnership Program	2008	16.607	4,223	89
Bulletproof Vest Partnership Program	2009	16.607	3,068	3,068
Bulletproof Vest Partnership Program	2010	16.607	7,364	6,808
Edward Byrne Memorial Justice Grant Program	2009-DJ-BX-1145	16.738	121,870	45,266
Edward Byrne Memorial Justice Grant Program	2010-DJ-BX-0690	16.738	112,816	51,702
Edward Byrne Memorial Justice Grant Program - ARRA	2009-SB-B9-1107	16.804	521,860	128,196
Internet Crimes Against Children Task Force (ICAC) - ARRA	2009-SN-B9-K026	16.800	436,726	74,061
Passed through State of Vermont Center for Crime Victim Services				
Crime Victim Assistance Grant	2010-VA-GX-0079	16.575	117,000	117,000
Total U.S. Department of Justice				585,424
<b><u>U.S. Department of Transportation</u></b>				
Direct Programs				
Airport Improvement Program	Various	20.106	Various	24,612,979
Airport Improvement Program - ARRA	FA-NA-01-83	20.106	3,074,100	1,117,947
Federal Transit Capital Investment Grant - SENTC	VT-03-0047-00	20.500	2,427,184	2,175
Passed through State of Vermont Agency of Transportation				
Highway Planning and Construction Grant - N/S Connector	ME-GC-M5000(1)	20.205	4,280,700	678,057
Highway Planning and Construction Grant - College Circle/Waterfront	STP5000(17)	20.205	3,150,000	416,411
Highway Planning and Construction Grant - Church Street & Off	STP5000(16)	20.205	5,400,000	1,017,671
Highway Planning & Construction Grant - Stormwater Mitigation	SW0051	20.205	150,000	150,000
Passed through Chittenden County Metropolitan Planning Organization				
Highway Planning and Construction Grant - Burlington Downtown & Waterfront Plan Transportation Study	PL 2011-17	20.205	39,600	7,050
Total U.S. Department of Transportation				28,002,290

(continued)

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Grant Title Pass Through Grantor/ Federal Grant/Program Title	Grant Number	CFDA Number	Grant Amount	FY 2011 Expenditures
<b><u>National Aeronautics and Space Administration</u></b>				
Direct Programs				
FY09 Earmark	NNX09AQ84G	None	1,000,000	366,035
FY10 Earmark		None	1,500,000	<u>102,542</u>
Total National Aeronautics and Space Administration				468,577
<b><u>Environmental Protection Agency</u></b>				
Direct Programs				
Brownfields Assessment and Clean Up Cooperative Agreements	BF-96113601-0	66.818	200,000	96,539
Passed through State of Vermont Environmental Protection Agency				
Capitalization Grants for Clean Water Revolving Fund - ARRA	Loan AR1-013	66.458	1,218,000	<u>691,766</u>
Total Environmental Protection Agency				788,305
<b><u>U.S. Department of Energy</u></b>				
Direct Programs				
Development & Maintenance of Testing Standards for Solar Energy Systems	4515-T037-10-01	81.117	50,000	5,242
Energy Efficiency and Conservation Block Grant - ARRA	DE-EE0002381	81.128	180,200	<u>84,017</u>
Total U.S. Department of Energy				89,259
<b><u>U.S. Department of Education</u></b>				
Passed through State of Vermont Department of Education				
Title I, Part A Cluster:				
Title I Grants to Local Education Agencies	4250-S015-11-01	84.010	2,449,113	2,343,873
Title I Grants to Local Education Agencies	4255-T037-10-01	84.010	27,307	9,757
Title I Grants to Local Education Agencies	4255-T037-10-02	84.010	24,867	1,590
Title I Grants to Local Education Agencies	4255-T037-10-03	84.010	35,262	1,460
Title I Grants to Local Education Agencies	4255-T037-10-04	84.010	40,208	9,658
Title I Grants to Local Education Agencies	4257-T037-10-02	84.010	60,405	2,174
Title I Grants to Local Education Agencies - ARRA	4757-T037-11-01	84.389	759,902	732,431
Title I Grants to Local Education Agencies - ARRA	4750-T037-11-02	84.389	462,829	419,172
Title I Grants to Local Education Agencies - ARRA	4750-T037-10-02	84.389	1,362,590	319,505
Title I Grants to Local Education Agencies - ARRA	4755-T037-11-02	84.389	3,705	3,705
Title I Grants to Local Education Agencies - ARRA	4755-T037-11-03	84.389	5,000	5,000
Title I Grants to Local Education Agencies - ARRA	4755-T037-10-02	84.389	148,934	21,744
Title I Grants to Local Education Agencies - ARRA	4755-T037-10-03	84.389	162,800	<u>6,746</u>
Total Title I, Part A Cluster				3,876,815
Special Education Cluster:				
Special Education Grants to States (IDEA-B)	4226-T037-11-01	84.027	1,109,661	969,563
Special Education Grants to States (IDEA-B)	4226-T037-11-02	84.027	21,871	15,599
Special Education - Preschool Grants (IDEA Preschool)	4228-S015-11-01	84.173	30,595	27,842
Special Education Grants to States (IDEA-B) - ARRA	4756-T037-11-01	84.391	1,105,388	744,674
Special Education Grants to States (IDEA-B) - ARRA	4756-T037-11-02	84.391	29,291	24,320
Special Education - Preschool Grants (IDEA Preschool) - ARRA	4758-T037-11-01	84.392	41,277	<u>16,205</u>
Total Special Education Cluster				1,798,203

(continued)

(continued)

Grant Title Pass Through Grantor/ Federal Grant/Program Title	Grant Number	CFDA Number	Grant Amount	FY 2011 Expenditures
Career and Technical Education Basic Grants to States	4318-T037-10-01	84.048	182,067	16,591
Career and Technical Education Basic Grants to States	4318-T037-11-01	84.048	179,410	177,052
Education for Homeless Children and Youth	4265-T037-11-01	84.196	26,696	26,696
Twenty First Century Community Learning Center	4611-T037-11-01	84.287	462,829	456,105
Educational Technology State Grant Cluster:				
Educational Technology State Grants	4263-T037-09-02	84.318	562,656	182,730
Educational Technology State Grants	4263-T037-11-01	84.318	27,000	14,805
Educational Technology State Grants - ARRA	4263-T037-11-02	84.386	33,000	33,000
Educational Technology State Grants - ARRA	4263-T037-11-03	84.386	20,000	20,000
Educational Technology State Grants - ARRA	4763-T037-10-03	84.386	4,500	409
Educational Technology State Grants - ARRA	4763-T037-10-04	84.386	10,000	793
Educational Technology State Grants - ARRA	4763-T037-10-05	84.386	7,800	1,196
Total Educational Technology State Grant Cluster				252,933
Reading First	4562-T037-10-01	84.357	294,533	67,494
English Language Acquisition Grants	4375-T037-11-01	84.365	163,972	106,705
Improving Teacher Quality State Grants	4651-T037-11-01	84.367	780,201	723,293
School Improvement Grants	4257-T037-11-01	84.377	10,500	10,467
State Fiscal Stabilization Fund Education State Grants - ARRA	4110-T037-11-01	84.394	1,497,690	1,497,690
Qualified School Construction Bond, Recovery Act		84.unknown*		8,692,766
Total U.S. Department of Education				17,702,810

**U.S. Department of Health and Human Services**

Passed through State of Vermont Department of Children and Families

Promoting Safe and Stable Families	03440-30120-11-CHAMP	93.556	40,000	36,200
Total U.S. Department of Health and Human Services				36,200

**Corporation for National and Community Service**

Direct Program

Volunteer in Service to America	10VSAVT001	94.013	45,000	29,699
Volunteer in Service to America	09RVAVT001	94.013	10,000	1,363

Passed through State of Vermont  
VT Commission on National and Community Services

AmeriCorps State	06AFHVT001-WAB 2009	94.006	369,079	79,800
AmeriCorps State	06AFHVT001-WAB 2010	94.006	237,750	181,055
Total Corporation for National and Community Service				291,917

**Federal Emergency Management Agency**

Passed through State of Vermont Agency of Transportation

FEMA Disaster Relief	FEMA-1995-DR-VT	97.036	677,545	25,201
Total Federal Emergency Management Agency				25,201

(continued)

(continued)

Grant Title Pass Through Grantor/ Federal Grant/Program Title	Grant Number	CFDA Number	Grant Amount	FY 2011 Expenditures
<b><u>U.S. Department of Homeland Security</u></b>				
Passed Through State of Vermont Department of Public Safety				
Homeland Security Program	2008-GE-T8-0045	97.067	13,734	13,734
Homeland Security Program	2008-GE-T8-0045	97.067	39,928	33,476
Homeland Security Program - ARRA	2009-PU-R1-0206	97.116	68,950	68,950
Homeland Security Program - ARRA	2009-PU-R1-0206	97.116	141,189	<u>141,189</u>
Total U.S. Department of Homeland Security				257,349

**U.S. Department of Transportation Security Administration**

Direct Program

Law Enforcement Officer Reimbursement Agreement Program	HSTS0208HSLR301	97.090	1,132,799	<u>226,476</u>
<b>Total Federal Awards</b>				<u>\$ 52,960,298</u>

(1) Cumulative expenditures exceed the award amount due to program income.

\* There are no Federal CFDA numbers for Qualified School Construction Bonds

Subrecipients:

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

Program Title			
Community Development Block Grant		14.218	\$ 203,729
Edward Byrne Memorial Justice Assistance Grant Program		16.738	<u>10,000</u>
Total			<u>\$ 213,729</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.

The Schedule of Expenditures of Federal Awards does not include the activity of the Electric Department Fund which expended \$ 1,110,599 in the Federal awards during the year.

CITY OF BURLINGTON, VERMONT  
SCHEDULE OF PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED  
FOR THE YEAR ENDED JUNE 30, 2011

Balance- July 1, 2010	\$ 6,912,562
Passenger Facility Charges Collected	2,612,396
Interest Earnings	18,724
Passenger Facility Charges Expended	<u>(2,505,713)</u>
Balance- June 30, 2011	<u><u>\$ 7,037,969</u></u>

CITY OF BURLINGTON, VERMONT  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2011

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued:

- |   |             |
|---|-------------|
| • Telecom Enterprise Fund                               | Disclaimer  |
| • General Fund and Government-wide Financial Statements | Qualified   |
| • All Other Opinion Units                               | Unqualified |

Internal control over financial reporting:

- |  |  |
|--|--|
| • Material weaknesses identified?      | <input checked="" type="checkbox"/> yes <input type="checkbox"/> no            |
| • Significant deficiencies identified? | <input checked="" type="checkbox"/> yes <input type="checkbox"/> none reported |

Noncompliance material to financial statements noted?

yes  no

Federal Awards

Internal control over major programs:

- |  |  |
|--|--|
| • Material weaknesses identified?      | <input type="checkbox"/> yes <input checked="" type="checkbox"/> no            |
| • Significant deficiencies identified? | <input checked="" type="checkbox"/> yes <input type="checkbox"/> none reported |

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

- |   |             |
|---|-------------|
| Airport Improvement Program with ARRA     | Unqualified |
| Highway Planning and Construction Cluster | Unqualified |
| Title I Cluster with ARRA                 | Unqualified |
| Special Education Cluster with ARRA       | Unqualified |
| Qualified School Construction Bond        | Unqualified |

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>
20.106	Airport Improvement Program with ARRA
20.205	Highway Planning and Construction Cluster
84.010/84.389	Title 1 Cluster with ARRA
84.027/84.173/84.391/84.392	Special Education Cluster with ARRA
84.unknown	Qualified School Construction Bond

Dollar threshold used to distinguish  
between type A and type B programs:

\$ 1,588,808

Auditee qualified as low-risk auditee?

yes  no

## SECTION II - FINANCIAL STATEMENT FINDINGS

### Finding #

### Finding/Noncompliance

11-1 Establish a "Sinking Fund" when Balloon Payments are Utilized (Compliance Finding)

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

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

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

#### City's Response:

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

The City repaid this loan to the State of Vermont using cash on hand between the Wastewater Fund and pooled cash in lieu of refinancing this debt with a new bond issue as authorized by the voters. The City chose not to refinance the balloon payment because it has been projected that the wastewater fund will be able to reimburse the pooled cash fund by the end of FY 2014. In order to memorialize the reimbursement, the Wastewater Department will sign a commitment letter to that effect.

**Finding #**

**Finding/Noncompliance**

11-2

**Consider Segregating the Accounting and Treasury Functions (Material Weakness)**

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

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

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

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

**City's Response:**

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

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

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**Finding/Noncompliance**

11-3 Develop a More Formal Risk Assessment Process (Material Weakness)

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

We recommend that the City implement a more formal risk assessment process that includes written identification of areas where potential fraud or material misstatements to the basic financial statements may occur, as well as how the City intends to respond to those risks, including ongoing monitoring activities. This will help minimize the risk of errors or irregularities occurring and going undetected.

City's Response:

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

11-4 Document Internal Control Components (Material Weakness)

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

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

City's Response:

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

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**Finding/Noncompliance**

11-5 Limit Access to the City's General Ledger (Material Weakness)

During our review of the internal controls over the accounting system, it was determined that the City has not recently reviewed which employees of the Clerk/Treasurer's Office currently have or should have access to the different components of the automated accounting system. This is particularly significant since the Department has recently undergone many changes to employees' job responsibilities. As a result, employees may be assigned access to components of the accounting system that may be incompatible with their present job description, resulting in a potential lack of segregation of duties.

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

City's Response:

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

11-6 Implement Regular Internal Audits (Material Weakness)

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

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

We recommend the City's Accounting Office establish a schedule for periodic internal audits of the City's departmental accounting records. This will result in improved oversight and should reduce the risk of errors or irregularities occurring and going undetected.

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**Finding/Noncompliance**

City's Response:

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

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

11-7

**Improve Monitoring of Capital Projects (Material Weakness)**

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

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

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

City's Response:

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

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11-8 Improve Airport Capital Appropriations Monitoring (Material Weakness)

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

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

City's Response:

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

11-9 Utilize a Fixed Asset Accounting System (Material Weakness)

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

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

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City's Response:

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

11-10 Accelerate Closing Process (Material Weakness)

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

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

City's Response:

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

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

11-11 Improve Controls over CEDO Special Revenue Fund Activities (Significant Deficiency)

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

We also noted that the Department issues manual checks to pay vendors and to reimburse the City. These manual disbursements bypass the City's normal

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vendor AP process and typically are not posted to the CEDO general ledger until the subsequent month. Similarly, we noted that certain loan repayment receipts are not reported in the CEDO general ledger until the subsequent month. These situations weaken controls and oversight over CEDO activities, and results in inaccurate general ledger records.

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

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

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

**City’s Response:**

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

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

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

In the future, the City will explore the feasibility of managing and reconciling the Special Revenue Fund activities, deposits, and check issuance and of the CEDO Department through the Clerk/Treasurer’s Office. If this proves to not

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be practical or allowable under Federal regulation, then the Assistant Chief Administrative Officer for Finance will conduct an annual internal audit of the financial activities of the Director and Assistant Director to ensure to the appropriateness of all transactions.

**SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
11-12	Highway Planning and Construction 20.205	<p><u>Improve Controls over Accounting Records and Requests for Reimbursement (Significant Deficiency)</u></p> <p>Federal regulations require grant recipients have policies and procedures that provide reasonable assurance that reports and requests for reimbursements, are supported by underlying accounting records, and are fairly presented in accordance with program requirements.</p> <p><u>Condition:</u> In fiscal year 2011, the general ledger expenditure records for the Federal Highway Planning and Construction Program reflected numerous journal entries to reclassify expenses which were originally misposted. We concur that the transferred costs appear to have been appropriately made.</p> <p>We also noted that in fiscal year 2011, the City did not make timely requests for reimbursement, resulting in increased grant receivables and negative cash flows for the grant. The year-end receivables balance was in excess of \$ 4 million.</p> <p><u>Effect:</u> Multiple reclassifying journal entries and untimely requests for reimbursement, increases the risk that Federal requests for reimbursement may not be appropriately presented in accordance with program requirements. No questioned costs are associated with this funding because the City was able to provide appropriate supporting documentation for all requests for reimbursement we tested.</p> <p><u>Recommendation:</u> We recommend the City make efforts to minimize reclassifying journal entries and make requests for reimbursement in a more timely manner.</p>	N/A

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
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City's Response:

The Office of Clerk/Treasurer Office is currently redesigning and simplifying its Chart of Accounts to provide clarity to staff in posting expenditures. Further, the City will provide refresher training to staff in the proper identification of expenditures and the posting of same. Finally, the City will utilize its internal controls and supervisory structure to ensure project expenses and revenue are better managed.

Our internal audit procedure will include:

- Review detail ledgers and project reports for grants.
- Ensure proper coding of invoices upon payment.
- Ensure worksheet summary that lists the projects and their associated general ledger codes were developed. This list was distributed to all project managers and support staff. They received instruction to verify/proof their documents to confirm the proper account code is listed on the project manager approval cover page. This will eliminate reclassifying journal entries. The City will continue to reconcile the costs charged to each project.

As it pertains to requests for reimbursement, the City has created a position to process requests for reimbursement and to improve the timeliness of submission to the State of Vermont. The City met with the State of Vermont to improve the accuracy and acceptability of its requests for reimbursement. This meeting has resulted in a reduction of the outstanding grant receivable by approximately \$2 million in FY 2012.

**SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS**

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Current Year Resolution</u>
10-13	Special Education Cluster 84.027/ 84.173 84.391	<u>Budget Amendments</u>  Finding 10-13 was resolved in the current year.	N/A
10-14	Special Education Cluster 84.027/ 84.173 84.391	<u>Controls over Budget Amendments (Material Weakness)</u>  Finding 10-14 was resolved in the current year.	N/A
10-15	Passenger Facility Charges	<u>Passenger Facility Charges Bank Account</u>  Finding 10-15 was resolved in the current year.	N/A
10-16	Passenger Facility Charges	<u>Passenger Facility Charges Quarterly Reports</u>  Finding 10-16 was resolved in the current year.	N/A
10-17	Passenger Facility Charges	<u>Controls over Passenger Facility Charges Quarterly Reports (Material Weakness)</u>  Finding 10-17 was resolved in the current year.	N/A