

CITY OF BURLINGTON, VERMONT

Management Letter

For the Year Ended June 30, 2017

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To the Honorable Mayor
and City Council
City of Burlington
149 Church Street
Burlington, VT 05401

In planning and performing our audit of the basic financial statements of the City of Burlington, Vermont as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

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 material weaknesses. **Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.** However, material weaknesses may exist that have not been identified.

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

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

January _____, 2018

1. Improve Capital Project Accounting

The City's general ledger for capital projects is very summarized, especially when compared to the City's 10-Year Capital Plan. For example, the 10-Year Capital Plan identifies multiple parks' projects, however, all parks' "Special Projects" (the fund's name) are accounted for in one general ledger fund. A similar situation exists where all "Infrastructure Projects" are in only one fund. Additionally, personnel in the Clerk/Treasurer's Office do not have comprehensive engineer-prepared project cost estimates. As a result:

- The status of individual projects is not maintained in the general ledger.
- Individual project budget and actual is not maintained in the general ledger.
- Life-to-date revenue and expenditure reports are not prepared.
- Determining if costs are project eligible is difficult and often results in significant journal entries.
- Determining unspent bond proceeds by project is not maintained in the general ledger.

We recommend that the City re-design how activity related to the City's 10-Year Capital Plan is maintained in the general ledger. In doing so, the City should address the five items noted above and perform an in-depth analysis of the summarized accounting to produce the life-to-date reports for each individual project. Implementation of this recommendation will provide the City with the necessary framework for more complete capital project financial reporting.

2. Enhance the Monthly Financial Statements

The financial reports published by the City provide only year-to-date revenues and expenditures by each fund. While this provides valuable information for the general, water, and waste water funds, the current reporting structure does not provide management with the current balances available in numerous special revenue and capital project funds. (Examples include individual CEDO grants, Pennies for Parks, Waterfront Access North, Impact Fees, and the Tax Increment Financing District.)

We recommend that the City redesign the formal financial report to include project-level balances. Implementation of this recommendation will enable management to more easily identify areas that need additional analysis and adjustments.

Finally, we recommend that the City's regular reporting package include reports designed to provide users with the financial position of the Impact Fees and the Tax Increment Financing District funds including the disclosure of amounts committed for future debt service and future project financing.

3. **Improve Pension Census Data Reconciliations**

Expand Retirement Reconciliations With Data Provided to Actuary

During our audit of the Burlington Employees Retirement System (the Plan) we exchanged data with the City's actuary and three contributing entities (Burlington School District, Burlington Electric Department, and City of Burlington). We noted that certain data provided to the actuary did not reconcile, or lacked completeness, with the underlying records maintained by the Plan. For example, pensionable earnings used in determining the Net Pension Liability of three entities was approximately 8% different than the same information we obtained directly from the entities. A similar variance was also noted with employee contributions.

We recommend that the Plan implement a more comprehensive set of reconciliations of data collected from the three entities. We further recommend that the Plan's reconciliations be reviewed by the City's Comptroller prior to submitting to the City's actuary. Implementation of this recommendation will provide assurance that the data provided to the City's actuary (used to determine the Net Pension Liability) is complete and accurate.

Increase Reconciliations With Contributing Entities (Prior Year Comment)

The Burlington Employee's Retirement System (the Plan) currently receives an annual file from each of the contributing entities (Burlington School District, Burlington Electric Department, and City of Burlington) of employee contribution data that is reconciled with the dollars that are transferred following pay periods. As a result, the reconciliations have become overly complex and members' data history is not current.

We recommend that the System re-design and streamline how contribution data is transmitted by the three employers. At a minimum, quarterly transmission of the data should be performed; however, monthly transmission should be the long-term goal. We also recommend that the System meet with the School District to review the data required to be transmitted that will allow the System to ensure the completeness and accuracy of the pensionable wages.