

**CITY OF BURLINGTON, VERMONT**

**Management Letter**

**For the Year Ended June 30, 2015**

**DRAFT**

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**DRAFT**

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, 2015, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. Material weaknesses are noted in the table of contents and comment headings.

During our audit, we also 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.

The City's written responses to our comments and suggestions have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

\_\_\_\_\_, 2016

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## 1. Continue to Improve Monthly Reconciliations

### Prior Year Recommendation:

In the prior year, we recommended that the City continue the process of improving the general ledger reconciliation to ensure a more timely closing process. Implementation of this recommendation will increase the reliability of interim financial reports and help to minimize the risk of undetected errors and or irregularities.

### Current Year Status:

In fiscal year 2015, the City continued to make significant improvements in monthly general ledger reconciliations process. However, during the 2015 audit process (November 2015), the City was still posting significant journal entries and/or evaluating fiscal year 2015 operating results in the following funds:

- Capital project fund accounting
- Storm-water fund accounting
- Tax Increment Financing
- CEDO
- Pension fund
- Interfund activity

Additionally, a few areas from the fiscal year 2013 conversion to the new financial management system remain unresolved including:

- Fully implement “Project Accounting” module within the new financial management system (or continue to expand the number of funds).
- Monitor impact fees to ensure funds are spent timely or otherwise returned.
- Create the ability to produce a Schedule of Expenditures of Federal Awards directly from the financial management system.
- Improve the distinction between the expendable and non-expendable portion of Cemetery Perpetual Care funds.
- Identify the allowable expenditure purposes associated with Permanent Funds (other than Cemetery Perpetual Care) and Private Purpose Funds.

### Further Action Needed:

We recommend the City continue with the general ledger reconciliation improvements made during fiscal year 2015, and specifically address the above noted areas in fiscal year 2016.

City's Response:

The City has made progress in performing reconciliations in a timely manner. The City acknowledges the "Project Accounting" module needs to be fully implemented. We will review and streamline the monitoring of impact fees to ensure funds are spent timely or otherwise returned. We will provide additional training on the project accounting and miscellaneous billing modules, and will utilize the New World (NW) accounting system's Grant Module. The Grant Module is a new module installed in December 2015. This module is designed to automate fully the Schedule of Federal Awards. The earlier versions of NW required manually tracking of grant sources and fell short of our billing management requirements. Lastly, we have successfully improved the distinction between expendable and non-expendable portions of the Cemetery Perpetual Care Funds and have identified the allowable expenditure within the Permanent Funds and Private Purpose Funds.

**2. Improve Monitoring of Pay Rates**

Prior Year Recommendation:

In the prior year, we recommended that the City restrict access to edit the payroll rates to the Human Resources Department. Implementation will reduce the risk of errors or irregularities occurring and going undetected.

Current Year Status:

During fiscal year 2015, the City developed a weekly pay-rate report to be reviewed by the Payroll Manager and the Assistant CAO to reduce the risk associated with human error and fraud. While the new report provides an enhancement, the rate review process is manually performed and does not require the approval of the Human Resources Department which has responsibility to approve a Change of Status report on any employee's pay rate.

Further Action Needed:

We recommend that the City continue to improve pay rate monitoring by establishing a system whereby any adjustment to rates will generate an automated Personnel Daily Action Report via secured email to the Human Resources Department and the Assistant CAO. We further recommend that the City require the Human Resources Department to document the approval of all adjustments. These additional monitoring procedures will further reduce the risk of errors or irregularities occurring and going undetected.

City's Response:

The City will develop a system whereby the Human Resource (HR) department, or another appropriate entity, will demonstrate that pay rates are monitored regularly. We will develop a system whereby that the HR department, sign off and approve all payroll rates, or we will explore an automated hierarchy approval process that demonstrates a clear segregation of duties.

**3. Implement Regular Internal Audits (Material Weakness)**

Prior Year Recommendation:

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.

Current Year Status:

During fiscal year 2014, the City performed examinations of certain transactional cycles including banking, accounts payable and purchasing.

Further Action Needed:

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):

- Billing cycles
- Departmental receipts
- Vendor monitoring
- Payroll

City’s Response:

The City agrees that there are in-house audit procedures that can be performed by Clerk/Treasurer’s personnel. Internal audits have not been conducted regularly due to staffing limitations. The Clerk/Treasurer’s Office is addressing this finding by reorganizing the department to utilize its limited resources. In addition, the Clerk/Treasurer’s Office will continue to investigate other methods to achieve the outcome desired by the auditor. We will use the Committee of Sponsoring Organizations (COSO) integrated framework for internal controls approved by the Board of Finance.

**4. Use Prior Audited Pension Plan Data for Valuations (Material Weakness)**

The implementation of GASB 68 required the City to have an actuarial valuation of the Plan to determine the Net Pension Liability (NPL) and to allocate the NPL to the City’s various funds including the School District. Our audit disclosed that a variance existed between the Employer Contributions by fund provided to the actuary and the Plan’s audited financial statements. As a result, revisions to the allocation of the NPL were on-going through November 2015.

Since the City’s NPL is measured a year earlier than its balance sheet data (measured as of June 30, 2014 for the June 30, 2015 financial statements), we recommend that the City provide the actuary with Employer Contributions and Plan Net Position amounts directly from the prior year audited financial statements. Implementation of

this recommendation will result in a more streamlined closing process, particularly the various enterprise funds and School District.

City's Response:

The City acknowledges this finding. The implementation of GASB 68 required the City to have an actuarial valuation of the Plan to determine the Net Pensions Liability (NPL) and to allocate the NPL to the City's various funds, including the School District, and all Enterprise Funds. This new audit requirement resulted in an investment of the Clerk Treasurer's Office to compile three years of data, and this process took approximately three months to validate the data. Please note that not all City departments utilize the City's main payroll system. We had major challenges with timely validation of the data not in our payroll system. The new GASB 68 was implemented for the first time this year and required the use of numbers from prior fiscal years ending June 30, 2013 and 2014. In the reconciliation process, the Clerk/Treasurers Office found that data provided for the previous periods by the administrator of the Retirement fund and payroll data not managed by the City did not reconcile to the general ledger. Going forward, the Clerk/Treasurer's Office will have the city Auditor review the numbers prior to submitting to the Actuary. This will ensure that this finding will be eliminated for fiscal year 2016.

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