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CERTIFIED PUBLIC ACCOUNTANTS

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June 26, 2009

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Honorable Mayor and  
Board of Finance  
City of Burlington  
Burlington, Vermont 05401

We have audited the financial statements of the City of Burlington, Vermont as of and for the year ended June 30, 2008 and have issued our report thereon dated June 26, 2009. We did not audit the financial statements of the Electric Department Fund. Those financial statements were audited by other auditors and our report on that Fund is based on the report of the other auditors. We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the City of Burlington, Vermont as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Burlington, Vermont'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 of Burlington, Vermont's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Burlington, Vermont's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed as follows, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies so indicated in the accompanying schedule of significant deficiencies and recommendations to be significant deficiencies in internal control over financial reporting.

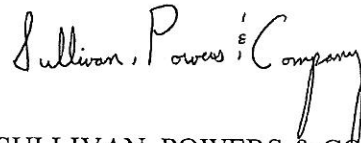
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. We believe four (4) of the deficiencies noted in the accompanying Schedule of Significant Deficiencies and Recommendations are material weaknesses in internal control over financial reporting.

We have also noted other matters in the accompanying Schedule of Significant Deficiencies and Recommendations. We have discussed the recommendations with the staff during the course of fieldwork and some of the recommendations may have already been implemented.

This report is intended solely for the information and use of the City Council and management and should not be used for any other purpose. If you would like to discuss any of the recommendations further, please feel free to contact us.

We would like to take this opportunity to thank the staff of the City of Burlington, Vermont for their assistance and cooperativeness throughout our audit. It has been a pleasure working with you.

Respectfully submitted,



SULLIVAN, POWERS & CO.  
Certified Public Accountants

CITY OF BURLINGTON, VERMONT  
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2008

SIGNIFICANT DEFICIENCIES:

Material Weaknesses:

City Finance Department Journal Entries

*Criteria:*

Internal controls should be in place over the preparation, approval, and posting of journal entries to help ensure that entries are valid and appropriate, adequately supported, and posted as prepared. Additionally, monitoring controls should be in place to determine that the controls over journal entries are operating effectively and as designed.

*Condition:*

The City Finance Department's controls over the preparation, approval and entry of journal entries are inadequate. Deficiencies noted were as follows:

- Several journal entries were either not approved or were approved and processed by the City's Finance Department incorrectly. These errors included journal entries being recorded in the incorrect fiscal year and journal entries being recorded backwards.
- Correcting entries done through the gross receipts module are not subject to the same controls as other journal entries and correcting entries.
- In several instances, the documentation included with the journal entries to support the journal entry was insufficient to determine the purpose for which the entry was being made.
- The City does not have specific controls relating to the monitoring of journal entries to help ensure that every journal entry is made following the City's procedures. We noted several instances where entries were being made to correct errors in original postings. Monitoring controls would help to eliminate such errors.
- The City does not maintain a listing of all of the authorized journal entry approvers in the City Finance Department or elsewhere.

*Cause:*

The City Finance Department's controls over all aspects relating to general journal entries are inadequately designed and inconsistently applied.

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*Effect:*

Errors in journal entry preparation and approval have caused the City to have material misstatements in their accounting records.

*Recommendation:*

We recommend the City's Finance Department evaluate its controls over journal entries and apply them consistently to all correcting entries, not matter where they are generated from. We also recommend that staff be more thorough when preparing and approving journal entries and that they include more detailed documentation to support the validity and appropriateness of the journal entry. Additionally, we recommend that the City implement monitoring controls to determine that controls over journal entries are designed effectively and implemented as designed. This will help alleviate the number of journal entry errors made and help to catch errors that do occur on a more timely basis. Lastly, we recommend that the City develop a listing of all of the individuals who are allowed to approve journal entries by Department and distribute it to all individuals who may be responsible for preparing entries.

School Department Journal Entries

*Criteria:*

Internal controls should be in place over the preparation, approval, and posting of journal entries to help ensure that entries are valid and appropriate, adequately supported, and posted as prepared.

*Condition:*

The School Department has implemented procedures which require review and approval of journal entries being recorded in the accounting system. However, this review is not always done on a timely basis and some journal entries for fiscal year 2008 had not yet been reviewed at the time of observation. The School Department's journal entries were also not supported by adequate documentation.

*Cause:*

The School Departments lack of timeliness over review of journal entries is due to time constraints on the individual responsible for reviewing entries.

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*Effect:*

The deficiency in timeliness of review of journal entries could allow improper accounting to go undetected for some time or be missed. Poor supporting documentation could cause an entry to be misleading as to its validity and appropriateness.

*Recommendation:*

We recommend that the School Department update its policy to review and approve journal entries in a timely manner to increase the likelihood of catching errors or misstatements. We also recommend that the School Department include more detailed supporting documentation for each journal entry to help the reviewer determine the validity and appropriateness of each entry.

System to Identify Additions/Deletions of Capital Assets

*Criteria:*

Internal controls should be in place to help ensure that accurate records of property, plant and equipment, including original cost and current year acquisitions and dispositions, are maintained for reporting purposes.

*Condition:*

The City does not have a system in place that tracks the purchase and disposition of property, plant and equipment. Each department prepares a list at the end of the fiscal year detailing purchases and dispositions. This method has been ineffective as accounting personnel have had to spend significant time verifying this information and, in many cases, found the list to be incomplete and inaccurate.

*Cause:*

The City's internal controls over the reporting of property, plant and equipment are inadequately designed

*Effect:*

Due to the errors in the individual departments' property, plant and equipment lists, more research and time was required for the accounting personnel to search the City's records to identify all purchases and dispositions. There were significant errors in the original listings, including in many cases, inaccurate costs.

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*Recommendation:*

We recommend the City develop a system for all departments to notify accounting personnel each time property, plant and equipment is purchased or disposed of, and to report the dollar values of such transactions.

School Department Capital Project Accounting

*Criteria:*

Capital expenditures should be recorded as property, plant and equipment in the period in which the work was performed or the asset was put into use, not the period in which it was paid for.

*Condition:*

The School Department does not have adequate procedures in place to record capital expenditures in the proper period. The School Department recorded certain expenditures in the period in which the expenditures were paid rather than when the work took place.

*Cause:*

The School Department's internal controls over the capitalization of expenditures for assets in the proper period are inadequately designed.

*Effect:*

This caused the capital asset records to be materially understated and adjustments were required to adjust the balances.

*Recommendation:*

We recommend that the School Department implement controls and procedures to ensure that expenditures for capital outlay are recorded when incurred.

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Other Significant Deficiencies:

Accounting and Procedures Manual

*Criteria:*

An accounting and procedures manual should be in place. This manual should define duties and responsibilities for current personnel, prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting record, help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management, training of new employees and possibly allow for delegation to other employees of some accounting functions management performs and to ensure compliance with OMB and grantor requirements.

*Condition:*

The City does not have an accounting and procedures manual in place for all City Departments and the Departments that do have them have not updated them.

*Cause:*

The City has not developed and/or updated the manuals due to time constraints.

*Effect:*

The City's staff does not have a manual to turn to when questions arise about the scope of their duties and responsibilities.

*Recommendation:*

We recommend that the City continue to develop and update this document as soon as possible. Each individual should document their duties and how to perform them. We also recommend that the City make sure that there are no jobs related to accounting and finance that only one person knows how to perform. The procedures manual would also be useful in determining whether this situation exists. We also recommend that the City determine which department have up to date manuals in place and begin the process of implementing manuals for all departments that have responsibility for financial and compliance issues.

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Documentation of Internal Control System

*Criteria:*

A solid understanding of internal control is essential. An organization must continually assess their internal control systems to ensure accurate financial reporting and compliance with laws and regulations. As part of this process, management should formally document its control systems. This kind of documentation should provide management with an understanding of the system related to financial reporting, the documentation of controls over relevant assertions related to all significant accounts, disclosures in the financial statements, antifraud programs and controls over selection and application of accounting policies.

*Condition:*

The City has developed or has begun to develop basic accounting procedures manuals for several of the City Departments. However, the City has not expanded on this area and extended the accounting procedures manual to include other functions (cash disbursements, account reconciliations, etc) or added more detail on how the duties are completed, where information comes from and, who completes the duties. In addition, the City does not have a formalized documentation of the internal control systems.

*Cause:*

The City has not expanded their basic accounting procedures manuals to include documentation of internal control systems due to time constraints.

*Effect:*

The City's employees do not have specific documentation to refer to when questions arise about the operations of internal control systems.

*Recommendation:*

We recommend that the City perform a complete evaluation and documentation of the internal control process. The document should break out the internal control process into the following five areas:

1. Control Environment – Sets the tone of an organization and is the foundation for all other components.
2. Risk Assessment – The identification and analysis of relevant risks to achieve its objectives forming a basis for how risks should be managed.



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3. Control Activities – The policies and procedures that help ensure management directives are carried out.
4. Information and Communication – The identification, capture and exchange of information in a form and timeframe that enables people to carry out their responsibilities.
5. Monitoring – The process that assesses the quality of internal control performance over time.

Internal Audit Function

*Criteria:*

Internal controls should be in place to monitor, through an internal audit function, the completeness of the population of revenue reports submitted, and the accuracy of the reports, to determine that all revenue that should be recorded by the City has been reported to the City Finance Department.

*Condition:*

The City receives certain revenue in the form of fees, taxes, concessions, leases at the Airport and other general revenue. The basis of this revenue is calculated as a percentage of other businesses' revenues. The City does not have an internal audit function in place to ensure that a complete population of reports has been submitted and/or to audit the reports that have been submitted.

*Cause:*

The City's internal audit function over revenue reports, from its various Departments is inadequately designed.

*Effect:*

The City's financial statements have the potential to be misstated due to not including all revenues.

*Recommendation:*

We recommend that the City consider establishing some internal audit functions to enable them to audit submitted reports for accuracy and to determine that they have a complete population of these reports. At a minimum, we recommend that the City begin to track historical data that would show significant fluctuations in revenues or minimal growth of revenues which could indicate fraudulent reported amounts.

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Fraud Risk Assessment

*Criteria:*

The City should have a program to identify vulnerabilities to fraudulent activities and identify processes, controls and other procedures to mitigate any identified fraud risks.

*Condition:*

The City has not performed a fraud risk assessment.

*Cause:*

The City has not performed a fraud risk assessment due to time constraints.

*Effect:*

The City could be subject to fraudulent activities of which they are unaware.

*Recommendation:*

We recommend the City design a fraud risk assessment program to reduce the possibility of fraudulent activities.

Billing System/Accounts Receivable Ledger

*Criteria:*

Accounts receivable balances at fiscal year end should be recorded on a timely basis.

*Condition:*

When determining the year-end receivable balances for grants, recreation fees, and public works fees, the City utilizes subsequent receipts. This resulted in a significant amount of time being spent to develop receivable lists as of June 30, 2008.

*Cause:*

The City does not have a centralized system in place to record all of its receivables on a timely basis.

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*Effect:*

The reports of the financial position of the City are inaccurate during the year.

*Recommendation:*

We recommend the City implement a system to record significant receivables.

Grants Management Database/Schedule of Expenditures of Federal Awards

*Criteria:*

All entities that receive and spend Federal funds are required to track all such expenditures in order to determine if they are subject to a Single Audit under the requirements of OMB Circular A-133. They are also required to accurately report this information on a Schedule of Expenditures of Federal Awards.

*Condition:*

The City receives numerous grants for various projects throughout the City. The City has not designated one person to maintain a database tracking all of the grants received by each department. Also, several items were noted on the Schedule of Expenditures of Federal Awards that required further research by the City due to errors in its preparation including inaccurate grant numbers, changes to expenditure amounts and grant award amounts.

*Cause:*

Internal controls over the tracking of the City's grants are inadequately designed as are controls over the preparation and review of the Schedule of Expenditures of Federal Awards.

*Effect:*

It is often difficult to locate many of the City's grants and/or determine their requirements. Also, the City was unable to provide a complete and accurate Schedule of Expenditures of Federal Awards. Issues included using the inaccurate grant numbers, inaccurate expenditure amounts and grant award amounts.

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*Recommendation:*

We recommend that the City require that all departments report their respective grants to a designated person so that a grants database can be developed. The type of information that should be included in the database is summarized as follows:

1. Grant award.
2. Grant period.
3. Grantor and contact name.
4. CFDA #.
5. Billing information.
6. Reporting information and due dates.
7. Fund #, grant #, and program #.
8. Narrative description of grant's purposes.
9. Current year expenditures.
10. Cumulative expenditures.
11. Cumulative receipts.
12. Other pertinent information.

This information will also aid in the development of the Schedule of Expenditures of Federal Awards and in completing a list of grants receivable at year-end. We also recommend that these revenues and expenditures be reconciled to the general ledger.

Parks and Recreation On-Site Program Receipts and Controls

*Criteria:*

Internal controls should be in place over cash collection procedures to help ensure that all of the cash collected is recorded and reported to the City's Finance Department and deposited into the City's accounts as well as to reduce the risk of fraud related to revenues where a large amount of cash is collected.

*Condition:*

The Parks and Recreation Department collects cash at various sites throughout the City for various programs and activities such as public beaches, the boathouse and marina, waterfront parking, Leddy Arena, the campground and various special events.

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Several years ago, the City did a study on the cash procedures related to these activities and made a number of recommendations. Some of these recommendations were implemented, however, we noted a number of issues that still exist. The City also implemented new procedures for Parks and Recreation Department to utilize for parking fee revenue. The new procedures were not in place until late in the previous year and inconsistent procedures were being performed during the current fiscal year. Further, through observation of the procedures over revenue at the Waterfront, several weaknesses in the design of their internal controls over revenues were identified. The following is a summary of these issues:

Leddy Arena:

- Deposits are only done twice per week.
- There are no receipts or tickets given out for certain public skating programs.
- There is currently no procedure in place to reconcile the software utilized by Leddy Arena staff to the City's centralized accounting records.

Waterfront Parking Lots:

- Not all attendants understood that they were required to give a receipt to customers.
- Not all locations has a sign asking customers to take a receipt.
- There is no requirement to display the receipt or other acceptable proof of payment, therefore, there is no way to monitor whether all the cars in the lot have paid or have the right to free parking.
- There is no list maintained or receipt generated for free parkers such as handicapped or Green Mountain passes.
- There is no list provided to tell the attendants who is eligible to park for free.
- There is no comparison done between the level of utilization and revenue reported.
- One parking attendant has a key to run his own "Daily Z Report" which is supposed to be run only by the Gate Supervisor.
- Several attendants make their own bank deposits although the Gate Supervisor or the designated person is supposed to pick up the deposits.
- The attendants are supposed to note and explain all voids, no sales and refunds of an "Attendant Activity Sheet." Not all attendants are utilizing the form.
- No one is verifying that all voids, no sales and refunds are listed and explained on the "Attendant Activity Sheet."
- Internal control has not been emphasized by management and, as a result, some attendants indicated that they were aware that controls over revenue were weak.

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Boathouse:

- There is no comparison between utilization statistics and revenue.
- Refunds were deleted from the system and, therefore, they did not show up in the Journal/Register generated by the Boathouse's software. Since refunds were deleted, there was no explanation as to the reasons for the refunds or any documented authorization.
- There was no record of the deposit of shower money until mid-July, 2008.
- Occasionally, if cash was not found in the envelope for a particular transaction, that transaction was deleted from the system. These were not tracked and there was no documented authorization for the deletions.
- There was no accounting for the sequence of transactions in the Marina software. There were a number of missing transactions. The software company can recover most of these transactions, but not all.
- There are transactions marked void in the system with no explanation as to the reasons for the voids or any documented authorization.
- There was no set amount of cash in the cash register.
- Cash is kept in the safe in the Boathouse office overnight.

Special Events:

- There is no requirement to give out receipts.
- There is no reconciliation done between the deposits made to supporting documentation of the amounts turned in.
- There is no reconciliation between events scheduled and receipts turned in.
- There is no monitoring of the Memorial Auditorium. The manager handles everything, including billing the customers, collecting cash, preparing the deposits and the deposit spreadsheet determining revenue codes, and making the deposit.

*Cause:*

The City has not implemented all of the recommendations generated by the study on the cash procedures related to the activities mentioned due to time and staffing constraints. Internal controls over revenue at the Waterfront and the collection and processing of parking fees at the City's recreation facilities are inadequately designed.

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*Effect:*

The City has unprotected assets that could be susceptible to misappropriation.

*Recommendation:*

We recommend that the City update their cash procedures study and implement better controls over these areas. Obviously, a cost/benefit analysis will have to be part of this process. We also recommend that the Parks and Recreation Department staff utilize the new procedures manual that outlines the new procedures and create a consistent process for receiving, recording and documenting revenue related to parking fees at the Parks and Recreation Department facilities. We further recommend that the City evaluate the deficiencies in internal control noted above and design and implement procedures and controls to address these issues.

Traffic Meter Receipts

*Criteria:*

Internal controls should be in place over the collection of parking meter and parking lot revenues to help ensure that all money collected is recorded and reported to the City's Finance Department and deposited in the City's accounts.

*Condition:*

The current system for collection of parking meter receipts has very limited controls in place. There is currently no reconciliation of totals that are collected from the meters to what is deposited in the bank. The City currently has the capability to do an internal audit of these collections, but this process has not yet been implemented. Also, the current system for the parking lots allows individuals who collect cash to have access to the coins before the deposit is made.

*Cause:*

The City has not implemented the internal audit procedure for parking meters due to time constraints on the employees collecting the meter fees. The lack of staffing has caused the system for collections and deposits at the parking lots to be inadequate.

*Effect:*

The City has unprotected assets that could be susceptible to misappropriation.

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*Recommendation:*

We recommend that the City utilize the electronic meters which have the capability to track financial information to reconcile revenue to the accounting records. We also recommend that the City evaluate the procedures over parking receipts, with a cost/benefit analysis, to attempt to strengthen controls in this area.

Parking Garage Revenue

*Criteria:*

Internal controls should be in place to help ensure that all procedures manuals relating to the various parking garages around the City are up to date and include all relevant procedures and controls relating to the garages. The manual should also include internal controls related to the monitoring function of internal control.

*Condition:*

The City has implemented a parking supervisors' procedures manual. This manual is designed to provide guidance on a variety of issues that affect employees and supervisors of the garages. There are several items that should be included in the manual in order to clearly outline responsibilities for initiating, recording and performing internal auditing of transactions. The following are some of the items that should be included:

- The manual does not address new procedures implemented on monitoring of voided transactions. The manual should clearly outline who is monitoring and how the monitoring is occurring.
- The City implemented new procedures to support transactions involving employee discounts, monthly passes, handicapped usage and hotel guest transactions. These new procedures and the responsibility for monitoring should be included in the manual.

Additionally, the City's procedures in place appear to be insufficient. We noted several issues during our testing and observation:

- There was no support for some reports with employee discounts, monthly passes, handicapped usage and hotel guest transactions.
- A few transactions did not have information attached to support the voided transactions.
- One daily report had no supervisor approval.



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- Three master cash reports were not approved.
- The cash drawer was left open on several occasions during the observations at the Marketplace Garage.
- The garages do not back up their software to store copies offsite.

Further, the Airport has equipment to monitor long-term parking but has not coordinated with the equipment provider to implement this.

*Cause:*

The City has not reviewed the procedures of the various parking garages or updated the supervisor's manual to include all relevant issues affecting garage employees and supervisors and to include monitoring controls due to time constraints.

*Effect:*

The City's parking garage employees and supervisors do not have a comprehensive manual to turn to when questions arise over how to handle various situations. Also, inconsistent and inadequate handling of events and situations occur due to the lack of a comprehensive manual.

*Recommendation:*

We recommend this manual move from an operations base manual to a complete procedures manual that outlines all policies and procedures and who is responsible of each. We also recommend that the City evaluate its procedures and controls related to the issues noted above and that the appropriate procedures are clearly documented and followed at all parking garage locations. Further, we recommend that the City implement procedures to monitor long-term parking at the Airport.

Review of Spreadsheet Calculations

*Criteria:*

Spreadsheets generated are often used to assist in reconciling and supporting account balances. Internal controls should be in place over the preparation and review of the spreadsheets and the calculations performed therein.

*Condition:*

Several of the City's departments prepare numerous schedules utilizing spreadsheets to calculate amounts recorded in the financial statements. However, the City and the School District do not have a control process in place to have an individual review the schedules for accuracy and mathematical errors. Some of those schedules did not calculate the account balance properly due to errors in the formulas.

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*Cause:*

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

*Effect:*

The City and School District's account balances are sometimes inadequately calculated and supported due to spreadsheet errors. For example, the School District utilizes Excel for tracking fixed assets and calculating depreciation and the spreadsheet formulas were inaccurate causing errors in the School District's reporting of fixed assets.

*Recommendation:*

We recommend that spreadsheets supporting amounts recorded in the financial statements be reviewed for proper calculations. Additionally, we recommend that the School District consider purchasing fixed asset software to track capital assets and depreciation to avoid similar problems in the future.

School Department Food Service – Segregation of Duties

*Criteria:*

Internal controls should be in place to segregate the duties of cash handling and preparing and performing the deposit. If this is not possible due to staffing limitations, mitigating controls such as a reconciliation of the deposit to cash register reports should be implemented. This independent check of deposits back to source documents is important to verify the deposit was made intact. Further, internal controls should be in place to give authority for voiding transactions to a single person, independent of those operating the cash registers.

*Condition:*

Currently, the School Department's food service daily cash up procedures has one person who is responsible for cashing out the registers and making deposits to the bank. The procedures do not include a reconciliation of the deposits back to the cash register reports by someone independent of the deposit process.

Also, the system of controls does not have consistent documented procedures to track or monitor voided transactions. Voided transactions can be utilized as a way to perpetrate fraud and should be closely monitored by management.

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*Cause:*

The School Department's internal controls over segregation of duties for food service are inadequately designed.

*Effect:*

The School Department has unprotected assets that could be susceptible to misappropriation.

*Recommendation:*

We recommend that the School Department implement controls to have each register attendant cash out their own drawers and implement new procedure to agree deposits back to source documentation by someone independent of the deposit process. We also recommend that the cash registers be monitored for voided transactions.

Code Enforcement Revenue/Receivables

*Criteria:*

Internal controls should be in place to help ensure that the software (AMANDA) used by the City's Code Enforcement and Planning Departments is used adequately to provide proper billings and supporting documentation for these Departments' revenues and receivables.

*Condition:*

The Code Enforcement and Planning Departments' software (AMANDA) can only print out receivable reports as of the report printing date. Additionally, the software cannot generate bills for the previous fiscal year so this requires the current year billings to include some prior year billings. This inflates the current year revenue reports and creates difficulty in providing a receivable report to the Finance Department at year-end.

*Cause:*

The City employees have been provided inadequate training on the AMANDA software and there is a lack of communication between the different departments as to what the reporting requirements are.

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*Effect:*

This system can provide billing and receivable information if utilized properly but the lack of training and communication between the Code Enforcement and Planning Departments and the Finance Department causes numerous errors in the accounting records during the year.

*Recommendation:*

We recommend the Code Enforcement Department print a receivable list at the end of each fiscal year to be utilized by the Finance Department. We also recommend that if amounts from the previous year have to be billed twice, the original billing should be written off in the billing software to prevent double counting of receivables. We further recommend that the department staff obtain training to better utilize the software.

Impact Fees

*Criteria:*

Vermont State Statutes require that Cities and Towns that collect impact fees track them in enough detail to determine who each fee was collected from, track interest income collected on the individual fee, and determine whether the fee collected was spent within a six (6) year period from the date on which it was originally collected. This tracking is crucial in making sure that impact fees are spent within the State mandated time requirements or that they are returned to the appropriate individuals if they are not spent within the specified time requirements.

*Condition:*

Impact fees are currently tracked by the City in total but not in enough detail to determine if each individual impact fee and the related interest income were spent. It is possible to determine that the City has impact fees available to spend that were collected within the last three (3) years putting the City in compliance with the State mandated time requirements. However, it is not possible to determine from whom the fees have been collected.

*Cause:*

Internal controls over the tracking of impact fees are inadequately designed to provide the amount of detail required by State Statute.

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*Effect:*

The City is not in compliance with State Statute tracking requirements for impact fees.

*Recommendation:*

We recommend that the City implement procedures and accounting spreadsheets to track each impact fee, record interest income and monitor how and when each was spent or returned.

Capital Project Fund Accounting

*Criteria:*

Account balances should be reconciled timely to provide management with the most up to date information for decision making and planning.

*Condition:*

The City does not reconcile all of its Capital Projects Funds on a timely basis.

*Cause:*

The City's internal controls over reconciling its Capital Projects Funds are inadequately designed to provide timely information to management.

*Effect:*

This practice causes the financial information of the City to be distorted during the year and until the funds are fully reconciled. This also creates difficulty in completing the detailed list of capital assets as of the end of the year.

*Recommendation:*

We recommend the City implement controls to update the Capital Project Funds on a timely basis and as soon after year-end as reasonably possible.

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Billing Master File Maintenance

*Criteria:*

Internal controls should be in place over the Telecom Department billing master files.

*Condition:*

The Telecom Department does not have adequate internal controls in place to prevent or monitor edits that are being made to master files. Due to this, it is possible for unauthorized employees to make changes to the Department's master files that were not approved, potentially causing master file information to be inaccurate.

*Cause:*

Internal control over the Telecom Department billing master files are inadequately designed to ensure unauthorized changes are not being performed.

*Effect:*

The potential for errors in the Telecom Department's billing master files.

*Recommendation:*

We recommend that the Telecom Department design and implement internal controls over master file maintenance to help ensure that access is limited to only authorized employees and that only approved changes are being made to the files. We also recommend that monitoring controls be implemented to help detect operating errors in these new controls.

Other Recommendations:

Human Resources/Payroll:

Hiring Procedures

City policy is for the Human Resources Department to make final approval of hiring decisions. The City currently hires and pays some employees prior to final approval from the Human Resources Department.

We recommend that the City follows its policy and not allow an individual to perform work and be paid until the Human Resources Department has provided final approval.

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Employee Reimbursement Policy

The City, including the School Department, is reimbursing employees for travel expenses and for other City expenses that were paid for by the employee. The documentation for some of these reimbursements was insufficient. In some cases, the employee only supplied the credit card statement and not the actual receipt. Also, we noted that the City was paying sales tax on certain purchases when the City is exempt from sales tax.

We recommend the City review its policy regarding employee reimbursement and strictly enforce the policy by requiring proper documentation.

Nepotism Policy

The City has a nepotism policy but it allows related parties to work in positions which should be segregated for internal control purposes.

We recommend that the City review and amend its nepotism policy so that related parties cannot work in positions that should be segregated for internal control purposes.

Payroll Processed by ADP

The City uses the ADP system to process the Water, Waste Water and Traffic Funds' payroll. They book all payroll entries relating to this processing based on the numbers provided to them by ADP. The City does not double check any of the amounts or recalculate any of the calculations to check for accuracy.

We recommend that the City implement controls to verify the accuracy of the data processed by ADP before they record their payroll entries.

General City-Wide Issues:

Computer Controls

The City does not have a strategic plan or risk management process to support its financial reporting requirements. In addition, controls over data recovery and testing processes are incomplete and physical security and access to programs, data, program changes and systems acquisition and development are not appropriately managed to ensure that the software adequately supports the financial reporting objectives.

We recommend that the City do a complete evaluation and documentation of its processes and controls over data recovery and testing, physical and program security, program changes and systems acquisitions and development to ensure they are adequate to support the City's financial reporting objectives and requirements.

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Disaster Recovery Plan

The City does not have well-defined, written disaster recovery procedures. The time to make contingency plans is before disaster strikes so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing facilities. We suggest that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

- Location of, and access to, offsite storage.
- A listing of all data files that would have to be obtained from the offsite storage location.
- Detailed instructions for restoring backup files and a copy of all policy and procedures manuals.
- Identification of a backup location (name and telephone number) with similar or compatible equipment and availability of programs for emergency processing (management could make arrangements for such backup with another company, a computer vendor, or a service center. The agreement should be in writing).
- Responsibilities of various personnel in an emergency.
- Priority of critical applications and reporting requirements during the emergency period.

Uninsured/Uncollateralized Deposits

The City had more than \$100,000 in their money market accounts during the year and at June 30, 2008. The basic insured amount for a depositor at each bank is \$100,000 each for interest bearing and non-interest bearing accounts. Any amounts in excess of the FDIC insured limits can be offset to the extent of any debt at that bank. The City has collateralization and repurchase agreements at certain banks, however, the agreements do not encompass all of the accounts, particularly certain accounts of the School Department.

Additionally, the City deposits the majority of its deposits at a local financial institution which has entered into a repurchase agreement with the City. Under this agreement, the City purchases a U.S. Government Security at the end of each business day and the institution agrees to repurchase it from the City the next business day. This protects the City's deposits in excess of FDIC insured amounts during non-business hours. However, this agreement does not protect the City from loss if the financial institution defaults on its obligations during business hours.

We also noted that the agreement does not cover all accounts of the City.

Our primary recommendation is that the City's monitor the stability of the financial institution holding its deposits. We also recommend the City consider amending this agreement with the financial institution to cover the deposits at all times. We further recommend the agreement include all City accounts and that the agreement be updated as necessary to include any accounts opened in the future.



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Procurement

The City does not have a process in place to be sure that each department is following its procurement policy. Additionally, the policy does not appear to include procedures on certification of suspension and debarment that could impact compliance with Federal grant requirements.

We recommend that the City develop a system to make sure all departments are following the policy. We also recommend the City review its procurement policy to be sure it includes all items that are required by Federal grant regulations.

City-wide Investment Policy

The City is required to disclose its investment policy and other restrictions on investments. Excluding the Pension Fund, the City does not have a formal investment policy. The Revenue Bonds of the Water, Electric, Airport and Telecom funds do have certain restrictions governing the investment of bond proceeds.

We recommend the City establish an investment policy that would apply to all departments of the City.

Tracking of Contracts and Agreements

The City is party to numerous contracts and agreements. There are no internal controls in place to ensure that, as these contracts and agreements are signed or amended, they are reported to the Finance Department so that any impact they may have on financial reporting can be assessed.

We recommend that the City implement internal controls to require that all contracts and agreements, whether original or amended, be reported to and tracked by the Finance Department for financial reporting purposes.

Revenue Recognition/Fraud Prevention:

City Arts Department Receipts

The City Arts Department collects money for various purposes but does not maintain a receipt log tracking the purpose and period for which the money is intended for. A summary is prepared by the City Arts Department and forwarded to the Clerk/Treasurer's office with very little support for where the receipts should be recorded in the accounting records. Additionally, it was unclear why certain July receipts were recorded as June revenues.

We recommend the City Arts Department implement a receipts log to track the receipts and reconcile this information to the accounting records. We also recommend that year-end receivable amounts be substantiated.

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Police Fee Revenue Recognition

The Police Department charges a fee for providing an officer at events sponsored by various entities. These revenues are recorded into the expense account where the officer's salary is charged. This understates both the revenue and expenses of the Department and is not in conformance with generally accepted accounting principles.

We recommend the Police Department record all fees to a revenue account so as to reflect the revenue and salary expenses at gross.

Police Special Services Fees

The City currently charges a fixed rate per hour to companies that hire the Police Department to do special services such as traffic control.

We recommend that the City review its special services fees to determine if they are adequate to cover all of its expenses including benefits and administrative costs.

Barter Transactions

A few departments of the City have entered into barter transactions where the City has exchanged goods and/or services with various vendors. These include dashboard ads at Leddy Arena, boat slips, parking spaces and information related to sold properties in exchange for advertising, website services, discounts on tent rentals, DJ services and flooring.

These revenues and expenses were not recorded in the City's financial records. It is also not clear if these items followed the City's purchasing and approval processes. In addition, there are always valuation issues related to the items or services received.

We recommend that the City prohibit the use of bartering.

Accounting Issues:

Accounts Receivable Review

The City has many receivables that have not been collected in many years in several of its Departments. If these are not collectible, they should be written off. These include personal property taxes, real property taxes, loans, Airport fees, project reimbursements, fire alarm fees, Telecom fees and police ticket fines. Additionally, the City has not reviewed the allowances for doubtful accounts relating to these receivables in a timely manner.

We recommend that the City review its accounts receivable lists for all funds and all departments and write-off amounts deemed uncollectible. We also recommend that the City review the allowance for doubtful accounts on a more timely basis.

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Classification of Expenditures

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

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

Full Accrual Accounting

The City is required to report its governmental activities on the full accrual basis of accounting and the modified accrual basis of accounting. Currently, the City does a good job maintaining its records for the modified accrual basis. However, significant time is required to report on the full accrual basis of accounting.

We recommend the City review its process of reporting to determine if it can develop a process to more easily report on the full accrual basis of accounting.

Interdepartmental Activity

The City writes numerous checks to itself as a way of paying interdepartmental invoices. The City also records interdepartmental activity through posting journal entries. The City also records accounts receivable and accounts payable at year-end to reflect amounts owed to or from other departments. This practice overstates both assets and liabilities of the City.

We recommend the City establish a single method of posting interdepartmental activity and that all unpaid interdepartmental activity be paid through the City's "pooled" cash accounts at June 30 of each year.

Stale Checks

Numerous stale, outstanding checks were noted in our examination of cash balances. The City needs to investigate why these checks have not been cashed and determine if they still owe these vendors money. They then need to either reissue the check if they can find the recipient or send the money to the State of Vermont as abandoned property.

We recommend the City investigate all of their old checks and reissue new ones if deemed necessary or send the money to the State of Vermont as abandoned property if the recipient cannot be found.

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Interest Allocation for Pooled Cash

The City uses a pooled cash account for several of its funds. The interest earned on this account is allocated only to certain funds that have a balance in this pooled account. This is an acceptable practice but it was noted that nobody at the City was able to explain why certain funds were not having interest allocated to them. Further, the City has not performed an assessment to determine that the proper funds were having interest allocated to them.

We recommend that the City re-evaluate and document its procedures for allocating interest to funds that have balances in the pooled cash account. This will help them to ensure that they are currently making the proper allocations and, in the future, will help them to determine if any newly created funds need to have interest allocated to them.

Reconciliation of Pooled Cash

The City receives a disk from the bank each month that reports the checks that cleared the pooled cash account. The City downloads this information and uses it to reconcile their pooled cash account. However, the pooled cash account did not reconcile by \$6,339.99 as of June 30, 2008. Further, the City could not produce an accurate outstanding check list. Subsequent to year end, corrective action has been taken on this matter.

We recommend that the City implement controls to produce an accurate outstanding check list which will assist in the reconciliation of the pooled cash account.

Evaluation of Construction in Progress

The City has several infrastructure projects in progress and has recorded capital assets relating to this construction in progress at cost, including the Southern Connector Project. The Southern Connector Project has not had any activity for several years, and, it is possible that its value, as recorded, has become impaired.

We recommend that the City evaluate this project and other infrastructure projects for impairment and adjust their accounting records accordingly to reflect the value of the projects.

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Miscellaneous:

Reporting

The City is involved in many different activities that require financial reports to be filed as part of compliance with regulations. These include passenger facility charge reporting, various grant reporting, and reporting based on certificates of public good. Some of these reports are completed through an internet based system and do not require a physical copy to be remitted. Currently, the City does not retain a copy of the reports that are filed through the internet based systems.

We recommend that reports that are submitted through an internet based system be printed and retained to document the submission of the data. We also recommend that the City document the procedures to complete all reports, including preparation, review, approval and submission.

Payment for Services with Cash

The Marketplace staff uses cash to pay for certain services performed by indigent individuals. There is no supporting documentation for these payments or the services provided. Additionally, it is unclear how these transactions should be reported to various State and Federal agencies.

We recommend that the City review this arrangement and implement procedures to sufficiently document these expenses and report the payments to the appropriate State and Federal agencies, if necessary.

Cost Allocation Plan

The City has a cost allocation plan that describes how various costs and services that are centrally administered are allocated to the various funds and departments of the City.

It does not appear the plan is updated when changes in staffing or operations occur. Also, there are a number of percentages, adjustments amounts and square footage that do not appear to have been updated or evaluated and/or are not supported by any information in the plan.

It is critical for the City to have a well thought out, documented and defensible cost allocation plan. It is important so that utilities are charged appropriate amounts for rate setting and to ensure that the City complies with OMB and FAA requirements and requirements in Burlington Telecom's certificate of public good.

We recommend that the City update their cost allocation plan when changes occur. We also recommend that the City evaluate the plan to ensure that it is equitable and complies with OMB, FAA and Burlington Telecom's certificate of public good.

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Compliance with Bond Resolutions

Certain Airport and Water Revenue Bonds are governed by a Bond Resolution which contains requirements to maintain a number of funds for the collection and application of revenue. The Resolution describes the flow of funds based on listed orders of priority. It is not clear from the Resolution if the term “funds” is defined as bank accounts, “funds” as in fund accounting, or “funds” as general ledger accounts within a single fund.

The City has established some, but not all, of these funds as accounts on its balance sheet in the overall Airport Fund. However, it is not utilizing these accounts as revenue is earned and expenses are incurred. The only fund established in the Water Fund is the Debt Service Fund.

We recommend that the City clarify what is meant by funds in the Bond Resolution. We also recommend that the City amend, when it is feasible, the Resolution to eliminate the requirement for all the various funds and accounts or comply with the Resolutions.

Disbursement Controls

The City has implemented controls over their cash disbursement procedures that require that the voucher be proofed by a different individual than the person who prepared it and this proofing must be documented with a signature on the voucher summary page. Further, a third person must approve the voucher and document their approval on the voucher summary page as well. In our review of disbursement controls, we noted the following instances where the City did not comply with its controls:

- Two (2) vouchers did not have a proofing signature on the voucher summary page. There were notes written on the batch payable edit list but there was no documentation of the proofing occurring on the voucher summary page as required.
- One (1) voucher was not approved by a Department head as required.

Further, one of the Department heads uses a signature stamp to mark approval on the voucher summary page. There are no controls in place over this stamp and the Department head has given verbal approval to have others in the Department use the stamp in his place.

We recommend that the City comply with its internal controls and implement a control procedure to monitor the approvals on the voucher summary page. We also recommend that the City require all signature stamps to be safeguarded when not in use and that only the named party on the stamp use it for approval purposes.

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Petty Cash Accounts

There are minor, immaterial amounts of petty cash funds for several of the City's Departments that are not reflected in the City's financial statements. Although the size of these accounts are small, the City should account for the activities of each account.

We recommend that the City address the need to maintain timely and accurate information regarding all of the cash accounts in their control.

Telecom Fund:

Certificate of Public Good Compliance

The Telecom Fund operates under a Certificate of Public Good (CPG) issued by the State of Vermont Public Service Board. This CPG requires various provisions that the Telecom Fund is required to adhere to. Many of these provisions are financial related and require monitoring to ensure compliance. There are currently no controls or procedures in place to monitor and document compliance with the CGP.

We recommend that the Telecom Fund identify all significant compliance issues within the CPG and document the compliance on a yearly basis. We also recommend that controls be implemented to have an individual review and approve this documentation once it is completed.

Capitalization of Service Calls

The Telecom Department hires consultants for new line installations and service calls. The Telecom Department capitalized the full cost of these services even though the cost of service calls should be expensed when incurred.

We recommend that the Telecom Department review each invoice and capitalize the portion related to installations and expense the portion related to service calls.

Revenue Assurance Auditing

The Telecom Fund does not have policies or procedures related to revenue assurance auditing. Revenue assurance auditing will provide a reconciliation between the Telecom operation systems and finance systems. This reconciliation will provide additional assurance that revenues are complete.

We recommend that the Telecom Fund implement policies and procedure to perform and document revenue assurance auditing.

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Interest and Penalties Charges

The Telecom Department does not charge its customers interest or penalties on late payments of their service billings. Charging these fees helps to prevent late payments by customers and will help to decrease the number of accounts with balances outstanding, effectively increasing the Telecom Departments cash flow.

We recommend that the Telecom Department consider charging their customers penalties and interest fees for late payments of their billings.

Customer Credit Checks

The Telecom Department does not perform credit checks on their customers before providing services to them. Checking the credit history of potential customers before providing them services could help reduce the number of outstanding balances the Telecom Department has to collect.

We recommend that the Telecom Department perform credit checks of all potential customers before providing them service.

Approval of Service Fees

Currently, the Telecom Department's management sets and approves the service fees for the Department.

We recommend that the City require the City Council to review and approve the service fees of the Telecom Department to help ensure that the fees are set in accordance with the City's objectives for the Telecom Fund.

Legal Opinion on Use of Pooled Cash

The Telecom Fund operates under a Certificate of Public Good (CPG) issued by the State of Vermont Public Service Board. This CPG requires various provisions that the Telecom Fund is required to adhere to, many of which are financial related. The Telecom Department's cash account is pooled with the rest of the City's cash and currently, the Telecom Department has a negative balance.

We recommend that the City obtain a legal opinion on whether or not the use of pooled cash is a violation of the CPG.



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Deferred Revenue

Burlington Telecom's deferred revenue at fiscal year end was misstated due to the Telecom Department not having any controls in place to help ensure that the recording of deferred revenue is done accurately throughout the year and at year end.

This lack of controls over the recording of deferred revenue caused Burlington Telecom's deferred revenue to be misstated at year end and adjustments were required to correct the balance.

We recommend that Burlington Telecom design and implement controls to ensure that revenues that have been collected but not earned are recorded as deferred revenue.

Review of Billing Adjustments

There are no internal controls in place requiring the review of billing adjustments performed by the Telecom Department.

We recommend that the Telecom Department design and implement internal controls to require review and approval of all billing adjustments to be made before they are applied to customer accounts.

Billing Controls

The Telecom Department utilizes a service organization to carry out all of their billing procedures. The Telecom Department provides information on services provided to customers to the service provider who prepares and sends customer billings based on that information. This organization has a SAS 70 report prepared on their internal controls but the City had not obtained or reviewed this report until after our audit had begun.

We recommend that the City obtain and review the SAS 70 report that is prepared for the service organization.

Telecom Fund Salary Allocations

The City tracks telecommunications expenses by phase. However, the payroll charges are being allocated between each of its different phases based on predetermined percentages. This practice distorts the actual expenses for each of the three phases. The payroll allocations should be based on actual time spent on each phase and be supported by approved timesheets.

We recommend that all payroll charges be spread to each phase based on an analysis of approved timesheets. We also recommend this be done as frequently as possible to keep the internal records accurate during the year for management analysis.

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Telecom Fund Indebtedness

The Telecom Fund has borrowed funds for capital purchases and cash flow for operating expenses until revenues are sufficient to meet ongoing obligations. Governmental accounting standards require the amount invested in property, plant, and equipment to be reflected in the financial statements. The City has not tracked the amount of borrowed funds invested in capital assets.

We recommend the City review its disbursement of debt proceeds to determine the amount spent on capital items versus the amount spent on operating expenses.

Airport:

Airport Landing Fees

The Airport utilizes monthly reports submitted by the airlines to the Vermont Agency of Transportation to determine the amount to bill for landing fees. These reports outline the number of landings by plane and the weight of each plane landed. The Airport has a procedure in place to track the landings by carrier. However, there is currently no procedure in place to reconcile the landings per the reports submitted to the Vermont Agency of Transportation to the landings tracked by the Airport.

We recommend that the Airport periodically agree the landings reported to the Vermont Agency of Transportation to the landing information internally generated by the Airport.

Airport Improvement Program Billing

The City's Airport Department does not compare the reports filed with the FAA to the accounting system's general ledger for each AIP project on a timely basis. We noted several discrepancies between the general ledger and the FAA reports.

We recommend the Airport Department compare each report to the general ledger to verify that reports are filed accurately and that the transactions have been appropriately recorded in the accounting system on a more timely basis.

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Airport Inventory

The Airport determined the quantities of inventory on hand at June 30 but used incorrect price information to determine the value as of June 30. There is no procedure in place that requires a review of the inventory calculations.

We recommend the City implement a procedure to review the calculations that determine amounts reported in the financial records.

Airport Revenue Overpayments

The Airport occasionally receives duplicate payments for the same invoice from the parent and subsidiary companies of airlines. These duplicate payments are not returned to the airlines but are tracked in the billing/collection system of the Airport as credits.

We recommend the Airport notify the airlines that this is occurring and refund these overpayments when they occur to prevent this from happening in the future.

Passenger Facility Charges Reporting

The City's Airport Fund is required by regulations to provide quarterly reports to the carriers collecting PFC revenues for the City. Currently, the Airport is not providing these reports to the carriers. The Airport indicated that no carrier ever requested this report.

We recommend that the Airport provide quarterly reports to the carriers or to make them available on their web site if the information is public and FAA agrees.

Airport Parking Fee Memorandum of Understanding

The Traffic Fund provides the staff and support for the collection of parking fees at the Airport parking facility. The Traffic Fund retains a portion of the collections for administration costs and remits the balance to the Airport Fund on a monthly basis. Historically, the amount retained by the Traffic Fund was based on a memorandum of understanding between the two departments. During 2007, the methodology utilized to determine the amount retained by the Traffic Fund was amended. This amendment has not been documented.

We recommend that the City document the agreement between the two funds. The agreement should describe the current methodology of determining the amount of fees to be retained by the Traffic Fund for administration.

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Passenger Facility Charges Bank Account

Regulations require PFC revenues to be maintained in a separate interest bearing account or in with Airport capital funds. PFC revenue it is not kept in a separate interest bearing account with Airport capital funds as required as the Airport was unaware of the requirement.

We recommend that the Airport transfer the PFC balance to a separate interest bearing account.

Passenger Facilities Charges Accounting Records

Regulations require the Airport to maintain a separate accounting record and allocate PFC revenues and interest earned to each approved application. The Airport does not maintain separate accounting records for revenue and interest earned for each approved PFC application as required as the Airport was unaware of the requirement.

We recommend that the Airport maintain separate accounting records for PFC revenue and interest earned for each approved application and allocate the revenue appropriately.

School Department:

Documentation of Change of Percentage of Time

The School District has employee salaries that are allocated to different Federal grants. We noted two (2) instances where the employee's percentage of time charged to the grant was changed after the contract was signed. There was documentation in the file of the changed amount but no approval or documentation to support the change. We recalculated the amounts and agreed them to payroll records without any differences.

We recommend the School District strengthen the controls surrounding changes in employee's percentages of time being charged to federal grants.

Accrued Sick Leave

The School Department does not know what the sick liability is at year end for only those employees who have been employed for longer than fifteen (15) years who would be paid for them at termination. This information is required to be reported for GASB 34 purposes.

We recommend that the School Department calculate the accrued sick liability at year end, for only those employees who have been employed for longer the fifteen (15) years, which they would be liable to payout at that time.

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School Department Student Activity Account Classification

The School Department has an Athletic Fund cash account that is classified as a student activity account. This account should actually be classified as an imprest account and be operated similar to a petty cash account with funds spent from the account being replenished to a fixed balance on a monthly basis.

We recommend that the School Department evaluate all of their cash accounts to make sure they are classified correctly.

School Department Pension Expense

The School Department does not pay into the Retirement Fund of the City. The City's General Fund pays the School Department's portion to the Retirement Fund. This is not reported on the statistical report to the State.

We recommend that the School Department determine if the retirement contribution should be reported on the statistical report to the State.

School Department Student Activities

The School Department's controls regarding student activity accounts appear to be insufficient. We noted several issues during our testing and observation at Edmunds Middle School:

- There are no bank reconciliations being done and the total of all student activity accounts are not being reconciled to the bank statement balance. There are also no controls in place to require the Principal of the School to review and approve bank reconciliations and make sure the summary of all student activity accounts agree to the bank reconciliations.
- There are no controls in place regarding deposits. Each teacher or club advisor is responsible for making their own deposits. There should be one person in charge of making deposits. They should have a log where they write down the amount of the money to be deposited and the teacher or club advisor and the administrative assistant should both sign the log.
- They are circumventing the purchase order system by using the student activity bank account to pay for expenses such as supplies which are budgeted for and reimbursed by the School District instead of sending the invoices directly to the School District to be paid.
- There are no controls in place that require the Principal to review and approve supporting documentation before signing checks.

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The School District receives inadequate documentation from each school and has to spend a large amount of time trying to determine how to record the student activities cash and liability balances. Additionally, the School District's purchase order system is being circumvented by the individual schools and purchases are being made without District approval.

We recommend that the School District evaluate its procedures and controls related to student activities and implement controls over each school in regards to reconciling and reporting student activity account balances, making student activity deposits and disbursements and the use of the purchase order system.

Single Audit Issues:

Documentation of Time and Effort – Time Sheet and Time Sheet Controls

A School District whose employees' compensation is paid in part from a program must maintain time and effort records in accordance with OMB Circular A-87. The School Department implemented controls to have employees complete monthly time sheets to certify their time that are paid in part by a Federal program. However, we noted the following:

- One (1) instance out of eight (8) employees selected for testing was found to complete the wrong time certification. The employee's time was split between two (2) Federal grants (Title I – Grants to Local Educational Agencies and Title IIA Improving Quality State Grants) and a semi-annual certification was completed in error. Based on the allocation of time, the employee should complete monthly timesheets so the actual time was charged to the Federal grant. The amount of the employee's salary and benefit was \$87,954.

We recommend that the School Department improve its controls and procedures to be sure that employees that work on multiple Federal grants are completing monthly timesheets to certify their actual time spent on the grant.

Budget Amendments

The Special Education Grant to States Grant indicates that if any line item in the detailed budget is to be increased by \$300 or 10% of that item, whichever is greater, the grantee needs to amend the grant. The School District has not established the appropriate controls to ensure any actual expenditures that are going to exceed the detailed budget by \$300 or 10%, whichever is greater, is amended before the expenditure occurs.

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There were nine (9) instances when the amounts per the School District records were each greater than the allowed amount per the grant agreement budget. There were thirteen (13) instances when categories in the School District financial records did not have an approved budget amount in the grant agreement budget. In addition, the School District had two (2) instances where the grant budget did not agree to the budget in the trial balance. Teacher compensation was too high and benefits were too low by \$2,485.

Questioned costs of \$86,623 were noted which is the difference between actual expenditures and the budget if that line item was \$300 or 10% above the budget.

We recommend that the School Department implement the necessary controls to ensure the actual expenditures are monitored and any line item increases over \$300 or 10%, whichever is greater, the grant is amended.

Suspension & Debarment

Non-Federal entities are prohibited from contracting with or making subawards of covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include those procurement contracts for goods or services that are expected to equal or exceed \$25,000 or meet certain other specified criteria of the governmentwide procurement, debarment and suspension common rule which contains those additional circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-Federal entity enters into a covered transaction, the non-Federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

All construction contractors must go through a pre-qualification of construction contractor process. As part of the application, there is a question regarding if the contractor is suspended or debarred, however, the City does not document their review to ensure the contractor is not suspended or debarred. For the contractors selected for testwork, we verified through EPLS that the contractor was not suspended or debarred from receiving Federal funds.

The City also has contracts in place for services which do not require the pre-qualification process. The School District did not have any controls in place to ensure the individuals or contractor was not suspended or debarred from receiving Federal funds. For all contracts above \$25,000, we verified through the EPLS that the contractor was not suspended or debarred from receiving Federal funds.

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The City has not established controls and procedures to ensure parties are not suspended or debarred from receiving Federal funds in accordance with compliance requirements.

We recommend that the City establish controls to ensure suspension and debarment are verified for all covered transactions in accordance with Federal regulations.

Title I Eligibility – Private Schools

Title I, Part A funds are to be used to provide services and benefits to eligible children residing or enrolled in eligible school attendance areas. Once funds are allocated to eligible school attendance areas, a school operating a targeted assistance program must use Title I funds only for programs that are designed to meet the needs of children identified by the school as failing, or most at risk of failing, to meet the State's challenging student academic achievement standards. In general, eligible children are identified on the basis of multiple, educationally related, objective criteria established by the LEA and supplemented by the school. In addition, certain categories of children are considered at risk of failing to meet the State's student academic achievement standards and are thus eligible for Part A services because of their status. Such children include: children who are homeless; children who participated in a Head Start, Even Start, Early Reading First, or Title I preschool program at any time in the two preceding years; and children who are in a local institution for neglected or delinquent children or attending a community day program. From the pool of eligible children, a targeted assistance school selects those children who have the greatest need for special assistance to receive Part A services (Title I, Section 1115 of ESEA (20 USC 6315)).

The School District does not have the proper controls in place to ensure students in one of their private schools are eligible to receive Title I funding. One of the private schools teaches students who do not make it in the traditional school setting. A referral form has not been completed in the past as each student qualified. For the 2008/2009 school year, the School District implemented a referral form to document that the student qualifies under the regulations for Title I funding. Since the referral form is new, it was not used until the 2008/2009 school year and therefore was not available for any of the students selected for testing.

We recommend that the School District establish controls and procedures to ensure that the School District obtains referral forms for the private school students that documents that the student is eligible to receive Title I services and funding.