

CITY OF BURLINGTON, VERMONT

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

For the Year Ended June 30, 2015

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Additional Offices:

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

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

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Burlington, Vermont (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 27, 2016.

Our report includes a reference to other auditors who audited the financial statements of the School Department and Electric Department as described in our report on the City of Burlington, Vermont's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Burlington Electric Department were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We consider the deficiencies described as items 2015-001 and 2015-002 in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

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

The City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the

auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Melanson Heath

January 27, 2016

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

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

We have audited the City of Burlington, Vermont's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operation of the Burlington School District (a discretely presented component unit) which expended \$6,835,693 in federal awards which is not included in the City's Schedule of Expenditures of Federal Awards for the year ended June 30, 2015. Our audit, described below, did not include the operations of the Burlington School District because a separate single audit in accordance with *OMB Circular A-133* was performed on the Burlington School District.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City of Burlington, Vermont, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

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

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

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

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

Purpose of this Report

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Burlington, Vermont, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City's basic financial statements. We issued our report thereon dated January 27, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Melanson Heath

March 8, 2016

CITY OF BURLINGTON, VERMONT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

<u>Federal Agency</u> Pass through Agency Program Title	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
Community Development Block Grant - Entitlement	14.218	\$ 610,552
HOME Investment Partnership Program	14.239	158,364
Brownfields Economic Development Initiative (BEDI)	14.246	256,642
Continuum of Care	14.267	11,882
Lead-Based Paint Hazard Control Program	14.900	<u>829,409</u>
Total U.S. Department of Housing and Urban Development		1,866,849
<u>U.S. Department of Justice</u>		
Internet Crimes Against Children (ICAC)	16.543	243,264
Bulletproof Vest Partnership Program	16.607	17,939
Edward Byrne Memorial Justice Assistance Grant Program	16.738	79,506
Passed through State of Vermont Center for Crime Victim Services Crime Victim Assistance	16.575	<u>117,000</u>
Total U.S. Department of Justice		457,709
<u>U.S. Department of Transportation</u>		
Airport Improvement Program	20.106	6,126,497
Passed through State of Vermont Agency of Transportation Highway Planning and Construction	20.205	580,872
State and Community Highway Safety	20.600	12,876
Minimum Penalties for Repeat Offenders	20.608	<u>3,475</u>
Total U.S. Department of Transportation		6,723,720
<u>Environmental Protection Agency</u>		
Brownfields Training, Research, and Technical Assistance	66.814	<u>126,561</u>
Total Environmental Protection Agency		126,561
<u>Corporation for National and Community Service</u>		
Passed through State of Vermont Commission on National and Community Services AmeriCorps - ARRA	94.006	<u>284,318</u>
Total Corporation for National and Community Service		284,318

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<u>Federal Agency</u> Pass through Agency Program Title	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
<u>U.S. Department of Homeland Security</u>		
Passed through State of Vermont Agency of Transportation		
Disaster Relief - Presidentially Declared	97.036	49,770
Assistance to Firefighters	97.044	280,848
Passed Through State of Vermont Department of Public Safety		
Homeland Security Program	97.067	47,438
Law Enforcement Officer Reimbursement Agreement Program	97.090	144,871
Total U.S. Department of Homeland Security		<u>522,927</u>
Total Federal Expenditures		<u>\$ 9,982,084</u>

The accompanying notes are an integral part of this schedule.

CITY OF BURLINGTON, VERMONT

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the City under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Pass-through entity identifying numbers were not available.

Note 3. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
14.218	Community Development Block Grant - Entitlement	\$ 245,630
16.738	Edward Byrne Memorial Justice Assistance Grant Program	\$ 8,000

CITY OF BURLINGTON, VERMONT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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

Lead-Based Paint Hazard Control Program	Unmodified
Airport Improvement Program	Unmodified
Assistance to Firefighters	Unmodified
Law Enforcement Officer Reimbursement Program	Unmodified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.900	Lead-Based Paint Hazard Control Program
20.106	Airport Improvement Program
97.044	Assistance to Firefighters
97.090	Law Enforcement Officer Reimbursement Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding

Finding/Noncompliance

2015-001 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.

2015-002 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.

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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.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.

SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

There were no findings in the prior year.