

**CITY OF BURLINGTON, VERMONT**

**Management Letter**

**For the Year Ended June 30, 2018**

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

Additional Offices:  
Andover, MA  
Greenfield, MA  
Manchester, NH  
Ellsworth, ME

In planning and performing our audit of the basic financial statements of the City of Burlington, Vermont as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. **Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.** However, material weaknesses may exist that have not been identified.

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

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

*Melanson Heath*

February 14, 2019

**1. Improve Capital Project Accounting (Prior Year Comment)**

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

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

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

We understand that the City has hired a consultant to assist with implementing this recommendation. The project is underway and the consultant is working with the City to define and implement Best Practices.

**City’s Response:**

The City has retained the consulting group of Berry Dunn to lead a business process review of its capital project accounting practices. The review will be collaborative, with participation from a number of City divisions, including DPW, Parks, Airport, CEDO, and C/T. The first phase of the project will focus on understanding challenges and areas for improvement in the current environment followed by a second phase to develop an implementation plan of solutions potentially involving process, policy, or technology changes. A key objective of the project is to mitigate prior audit Management Letter findings.

**2. Enhance the Quarterly Financial Statements (Prior Year Comment)**

The financial reports published by the City provide only year-to-date revenues and expenditures by each fund. While this provides valuable information for the general, water,

and waste water funds, the current reporting structure does not provide management with the current balances available in numerous special revenue and capital project funds. (Examples include individual CEDO grants, Pennies for Parks, Waterfront Access North, Impact Fees, and the Tax Increment Financing District.)

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

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

City's Response:

The City acknowledges the auditor's recommendations and an opportunity to improve our financial reporting. We will provide accounting, engineering, and project management staff the tools that allow for full drill-down capability of the general ledger detail. Collectively, we will redesign our financial reporting produced on a quarterly basis for special and capital project funds to include project-level balances to enable better reporting for staff and leadership. We will provide a detail on the sources and uses of funds, with enhanced tracking of revenue sources and their use. Our goal is to begin producing new reports for the first quarter of Fiscal Year 2020.

**3. Improve Pension Census Data Reconciliations**

*Expand Retirement Reconciliations With Data Provided to Actuary (Prior Year Comment)*

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

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

*Continue to Review Census Data*

The City has made strides in the past couple of years to improve the completeness and accuracy of critical census data information (employee and retiree date of birth, date of hire, department, pensionable wages, etc.) used to determine the Total Pension Liability (TPL). This process has resulted in significant changes to the amount of the TPL allocated to the various employer and enterprise funds. We recommend that the City complete the process of reviewing all census data associated with determining and allocating the TPL. Generally, absent changes to Plan benefits, the percentages allocable to the various employer and enterprise funds should change minimally.

City's Response:

On an annual basis, the City provides the actuary with two files (separate files for active and inactive members) containing information that was queried from the City's recently implemented pension database. The actuary reviews and scrubs the data received from the City, and then sends questions to the City regarding information that appears to be: (1) incomplete, (2) unreasonable, or (3) inconsistent with data used for the prior year's actuarial valuation. The City provides a response to the actuary, in order to resolve any apparent issues inherent within the initial data file.

In addition to following the above existing procedures, the City has implemented a quarterly reconciliation of retirement information from the three reporting payroll departments. This will allow the office to address inconsistencies in census and reportable earnings information provided.

**4. Fully Utilize Fund 110**

In the past two years, the City has begun dedicating (committing or assigning amounts for particular purposes) some of the surpluses generated from positive general fund operations. As these dedicated amounts have grown, the City's spreadsheets used to track these amounts has become overly complex. General ledger fund number 110 was established to track these dedicated amounts in the system (rather than via spreadsheets), however, this fund is not operating as designed. As a result, understanding the results of the annual budget and the separate carryforward amounts has become more challenging.

We recommend that the City fully utilize the fund established to track these dedicated amounts. This will require that the City establish the dedicated amounts as an appropriation in fund 110 and record the expenditures incurred against such amounts in the fund as well. Implementation of this will streamline the budgetary comparative schedules for all appropriations.

City's Response:

The Clerk/Treasurer's Office is aware of this and agree. We began work to better use Fund 110 with the end of Fiscal Year 18. Further work is planned for Fiscal Year 19,

including building specific process and reviews/reconciliations into existing staff's jobs. We will also explore utilizing Fund 110 in conjunction with perhaps the project module to greatly increase and strengthen our reporting accuracy and ability.

## **5. Formally Document Information Technology Controls**

During our inquires, we learned that many components of the City's Information Technology internal control procedures are regularly preformed, however, such procedures have not been formally documented (written). We were also informed during our inquiries, that a delay in removing system user access rights often exists when there is a change in an employee's status.

We recommend that the City complete the documentation associated with its Information Technology internal control procedures. We understand that the IT Department is working with the Payroll Department to find an automated solution to eliminate the delay in removing access rights. If an automated solution cannot be established by June 30, 2019, we recommend the City develop alternative procedures to eliminate the delay.

### **City's Response:**

The City's I&T team has been exploring a new collaboration with another City department that would potentially create infrastructure necessary to allow new control procedures for removing system access rights. Determining the feasibility of this option will be a priority for the team in the coming months, and an alternative procedure has already been developed in the interim.

The lack of formal documentation for internal control procedures is a related issue, and the Department is taking steps to remedy this problem. In particular, the Department will focus over the next several months on improving the collaborative relationship with other City departments to tie into off-boarding processes for City employees to better manage IT access.

## **6. Improve Controls Over Payroll**

During our payroll testing, we noted that documented approval by a supervisor or manager was not present on about 25 percent of timecards sampled. The lack of documented approval was mostly related to the Police Department. We recommend that the City ensure that a responsible official document (via signature or electronically) their review and attestation to the hours worked.

Also, during our testing, we were informed that Employee Audit Reports (available through New World System for documenting changes made to employee's status) are not regularly reviewed by the Human Resources Department. As a result, adjustments to an employee's status could be made without documented approval by the Human Resources Department. We recommend that the City implement procedures requiring the Human Resources Department to review and approve all Employee Audit Reports.

Additionally, we found that not all departments utilize Kronos (the system utilized to track employee time) to request and document time off. As a result, there is an increased risk of unreported time off, when comparing days off reported in New World System and Kronos. We recommend that the City ensure that all departments utilize Kronos to request and document time off.

City's Response:

An updated procedure for reviewing timecards and written authorization, electronically or written, will be provided to Department Heads and Supervisors by the end of March. The payroll staff will work with departments to ensure signoff on all groups.

HR and C/T staff has already met to address the issue of reviewing payroll edits via "Employee Audit Report". A process is being developed that will ensure the review and signoff of audit reports by HR.

The City feels that ensuring Supervisors are signing off on timecards which contain any paid leave time will alleviate the concern that leave time is not being reported. In addition, we will request that all users of the Kronos timekeeping system utilize the feature for requesting leave time.