

Sullivan, Powers & Co.
CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL CORPORATION

77 Barre Street
P.O. Box 947
Montpelier, VT 05601
802/223-2352
802/223-3578 FAX

Fred Duplessis, CPA
Richard J. Brigham, CPA
Chad A. Hewitt, CPA
Wendy C. Gilwee, CPA
VT Lic. #92-000180

June 26, 2008

Honorable Mayor and City Council
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, 2007 and have issued our report thereon dated June 26, 2008. 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, 2007, 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.

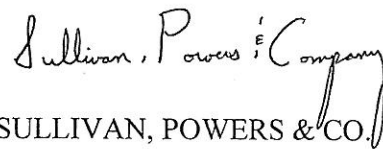
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. We believe five (5) of the deficiencies 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, 2007

SIGNIFICANT DEFICIENCIES:

Material Weaknesses:

City Finance Department Journal Entries

The City Finance Department's controls over the preparation and entry of journal entries are inadequate. Several journal entries were approved and processed by the City's Finance Department that were incorrect. These errors included journal entries being recorded in the incorrect fiscal year and journal entries being recorded backwards.

We recommend the City's Finance Department evaluate its controls over journal entries. We also recommend that staff be more thorough when preparing and approving journal entries.

System to Identify Additions/Deletions of Capital Assets

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. This required more research and time for the accounting personnel to search the City's records to identify all purchases and dispositions. There were significant errors in the original list such as inaccurate cost

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.

School Department Capital Project Accounting

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. This caused the capital asset records to be materially understated.

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

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

Documentation of Time and Effort – Semi-Annual Certifications Controls

A school that participates in a school-wide program and whose employees compensation is funded solely from a combined school-wide program must furnish semi-annual certifications that he/she has been engaged solely in activities supported by those funds in accordance with OMB Circular A-87. The School Department implemented a policy to have employees who are engaged solely in activities supported by school-wide program funds complete the semi-annual certifications. However, we noted the following:

- Title I Grants to Local Educational Agencies – One (1) instance out of twenty-two (22) tested completed a semi-annual certification instead of a timesheet based on actual time.
- Special Education – Grants to States – IDEA B – One (1) instance out of eleven (11) tested did not complete a semi-annual certification as required

Additionally it was noted that the School District does not have any controls in place to ensure that the semi-annual certifications are primarily completed after the end of a semester.

We recommend that the School Department improve its procedures to be sure that only employees who are required to complete a semi-annual certification do so and the remaining employee's complete timesheets based on actual time. We also recommend that the School District implement controls to ensure that the semi-annual certifications are completed after the end of a semester, instead of at the start.

Documentation of Time and Effort-Timesheets Controls

The School Department charges salaries to the Title I Grants to Local Educational Agencies, Improving Teacher Quality State Grants, Special Education Grants to States – IDEA B and Safe and Drug Free Schools and Communities – National Programs based on timesheets prepared by the employees. However, the timesheets are primarily completed based on the budgeted staff allocations to the program. Also, timesheets were only completed and/or turned in two times during the year instead of at least monthly. There are no procedures in place to be sure that timesheets are completed based on actual time. Also, there are no procedures in place that require employees to complete timesheets at least monthly during the year.

We recommend the School Department implement procedures to ensure that timesheets are prepared based on actual time spent on a program.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

Other Significant Deficiencies:

Accounting and Procedures Manual

The City Clerk/Treasurer's office and the retirement office have policy and procedures manuals in place, however, they have not been updated in some time. Additionally, the memorial auditorium and parks & recreation departments do not have any accounting/procedure manuals. These manuals are vital in the event of turnover, but also define duties and responsibilities for current personnel. Written procedures, instructions, and assignments of duties will prevent or reduce misunderstanding, errors, inefficient or wasted effort duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well devised accounting manual can also 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. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs. Additionally, the manual should incorporate procedures that have been implemented to ensure compliance with OMB, grantor and regulatory requirements.

We recommend that the City update these documents as soon as possible. Each individual should write out their duties and how to perform them. The manual should include examples of forms with descriptions of their use. Once updated, only changes in procedures or forms will require changes in the manual.

We believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

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 departments 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.

Internal Audit Function

The City receives certain revenue in the form of fees, taxes, concessions at memorial auditorium, 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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

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.

Fraud Risk Assessment

The City does not have a fraud risk assessment program in place. A fraud risk assessment is important because it identifies the City's vulnerabilities to fraudulent activities and whether those vulnerabilities could result in material misstatement of the financial statements. The fraud risk assessment would also identify processes, controls, and other procedures used to mitigate the identified fraud risks.

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

Billing System/Accounts Receivable Ledger

The City does not have a centralized system in place to record all of its receivables on a timely basis. 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, 2007. This also indicates that the reports of the financial position of the City are inaccurate during the year.

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

Grants Management Database/Grant Revenue

The City has numerous grants for various projects throughout the City. It is often difficult to locate many of these grants and/or determine their requirements. The City needs to develop a database and have all departments report their respective grants to one designated person so that all the grants can be tracked in one location. The City was unable to provide a complete and accurate Schedule of Expenditures of Federal Awards. Issues included not including numerous grant and loan programs, calculating the Federal portions utilizing the incorrect grant percentage, and not including all the expenditures through the end of the fiscal year.

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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

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.

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. 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

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.

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 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.

Special Events:

- There is no reconciliation of sales to items purchased and sold during the events.
- There is no requirement to give out receipts.
- There is no reconciliation from the amounts turned in to the deposits at the bank.

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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

Parking Fees at Recreation Facilities

The City implemented new procedures for the Parks and Recreation Department to utilize for parking fee revenue. The new procedures were not in place until late in the year and inconsistent procedures were being performed during most of the fiscal year. Some of the issues noted were as follows:

- Not all locations had a sign asking customers to take a receipt.
- Finance staff noted that deposits were not remitted to the Treasurer with consistent supporting documentation.
- No procedures to reconcile cash register activity to the amount remitted to the Treasurer.
- No procedures to track and reconcile season pass receipts.

We recommend that the 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.

Traffic Meter Receipts

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. Also, the current system allows individuals who collect cash to have access to the coins before the deposit is made.

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

Parking Garage Revenue

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:

- 1) 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.
- 2) 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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

- 3) The manual should also identify the process at the Airport related to credit cards and outline the staff responsibilities for recording transactions as well as tracking credit card denials.

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.

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

- 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.
- One master cash report was not approved.
- Four ticket counts on the cashier reports were not filled out.

We recommend that the City evaluate its procedures and controls related to the issues noted above and that the appropriate procedures are followed and clearly documented.

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

We recommend that the City implement procedures to monitor long-term parking at the Airport.

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.

Review of Spreadsheet Calculations

The City prepares numerous schedules utilizing spreadsheets to calculate amounts recorded in the financial statements. However, the City does 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.

We recommend that spreadsheets supporting amounts recorded in the financial statements be reviewed for proper calculations.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

School Department Food Service – Segregation of Duties

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. It is important to have an independent check of deposits back to source documents to verify the deposit was made intact.

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.

We recommend that the School Department food service amend its procedures 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

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 previous fiscal years and 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. This system can provide billing and receivable information if utilized properly but the lack of training and communication between these departments and the finance department causes numerous errors in the accounting records during the year. This causes loss of time adjustments at year-end.

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 are billed twice, the original billing be written off in the billing software to prevent double counting of receivables. We further recommend that the department staff obtain training to utilize the software.

Impact Fees

Impact fees are currently tracked in total but not in enough detail to determine if each impact fee and the related interest income was spent. This tracking is crucial in making sure that impact fees are spent within the State mandated time requirements.

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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

Capital Project Fund Accounting

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

We recommend the Capital Project Funds be updated on a timely basis and as soon after year-end as reasonably possible.

CEDO Loans Receivable

The City does not review its calculations of loan discounts or its allowance for doubtful loans in a timely manner.

We recommend the City review its loan discount calculations and allowance for doubtful loans on a timely basis.

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.

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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

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.

General City-Wide Issues:

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, 2007. 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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

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.

Revenue Recognition/Fraud Prevention:

Arts Department Receipts

The 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 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 sufficiently substantiated.

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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

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.

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.

Accounting Issues:

Accounts Receivable Review

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

We recommend the City review its accounts receivable lists and write-off amounts deemed uncollectible and review the allowance accounts on a more timely basis.

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. 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.

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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

Airport Rental Activity

The Airport contracts with a local agency to oversee the rental of the buildings owned by the Airport. As of June 30, the agency had approximately \$88,000 in a non-interest bearing account that had not been remitted to the Airport.

We recommend the Airport require the funds be held in an interest bearing account and that the Airport set a threshold that, once reached, requires the agency to remit funds to the Airport.

Revenue Overpayments

The Airport occasionally receives duplicate payments from airlines. These duplicate payments are not returned to the airlines but are tracked in the billing/collection system of the Airport.

We recommend the Airport refund these overpayments when they occur.

Classification of Expenditures

The City records certain non-capital projects in capital outlay budget lines. An example of this is reappraisal and zoning rewrite expenditures. 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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

Telecom Fund Salary Allocations

The City tracks the 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.

General Fund FICA Tax and Retirement Expenses

As mandated by the City Charter, the City sets a retirement tax rate which is intended to fund the FICA tax and retirement expense for the General Fund and the School Department's non-teacher employees. This retirement tax rate is based on a retirement budget using estimated payroll amounts. The tax rate is multiplied by the Grand list and this is the amount of contributions that the General Fund makes to the Retirement Fund. This method is inconsistent from all other departments in the City. Other departments pay exactly 7.65% of salary for FICA and pay a certain retirement percentage based upon an actuary's recommendation. The General Fund never does a "true up" to determine whether they underpaid or overpaid for FICA or retirement thus potentially making it inequitable among all funds.

The General fund does not utilize the actuarial percentage for retirement either. The General Fund retirement contribution is based on what is left over after FICA is paid from the amount of taxes raised. In years where there is significant employee turnover, additions or reductions, the amount of FICA due could be higher or lower than budgeted. All FICA expense is passed through the Retirement Fund to the Internal Revenue Service so the Retirement Fund recognizes that the General Fund pays all of its required FICA expense first. Consequently, the amount of money left over for retirement funding could be less than what is required by the actuary.

We recommend that if the City continues to set a retirement tax rate in order to raise taxes to be used for retirement and FICA expenses, that the amount that is transferred to the Retirement Fund be calculated in the same manner as all other departments. This may result in the General Fund having excess taxes raised or they may have to utilize other revenue sources to fund any shortfall. This process will ensure equity among all departments.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

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.

Disclosure Issues:

Capital Lease Purchases

Governmental accounting standards require that the amount of assets purchased through capital lease financing and the related accumulated depreciation be disclosed in the annual audited financial statements. Currently, the City is not able to identify all of the assets acquired through capital leases in its detailed capital asset listing.

We recommend the City review its capital asset list and note which items were purchased through the use of capital leases.

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.

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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

Miscellaneous:

Passenger Facility Charges Reporting

The City's Airport Fund is required by 14 CFR Part 158.63 to provide quarterly reports to the carriers collecting PFC revenues for the City. Currently the Airport is not providing these reports to the carriers.

We recommend the City provide these reports to the carriers that collect PFC revenues for the City.

Airport Revenue Distribution

The Airport has not reviewed the revenue distribution codes and, as a result, some Industrial Park receipts were miscoded to Miscellaneous Airfield in error. Additionally, there are insufficient procedures in place to review the revenues for proper coding.

We recommend that the Airport review and update the revenue distribution codes. We also recommend the Airport review its revenues for proper coding.

Pre-Qualification of Contractors

The City's purchasing policy requires the pre-qualification of potential contractors. The fuel depot project did not include the pre-qualification process.

We recommend the City perform and document this pre-qualification process on all projects.

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.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

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.

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.

During the year, the funds and departments are charged based on budgets for many of the costs. The plan requires the City to evaluate the actual costs compared to budget and adjust the amounts charged, if necessary. For the most part, this was not performed even though there were significant differences from budget.

In addition, it does not appear the plan was updated when changes in staffing or operations occurred. For example, no change was made to the insurance methodology even through the City switched from VCLT PACIF to a combination of insured/self insured coverage with a different carrier.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

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

It is critical for the City to have a well thought out, documented, 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 and true up the plan when actual expenses or the results of the allocation formula differs from the budget. 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.

Compliance with Bond Resolution

Certain Airport Revenue Bonds are governed by a Bond Resolution which contains requirements to maintain a number of funds for the collection and application of Airport 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.

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.

Davis-Bacon Testing

The City has numerous grants that require compliance with the Davis-Bacon Act. The City has included the requirements in the construction contracts and designated individuals or outside engineering firms to perform the collection and testing of the certified payrolls. However, the City's appointed personnel/engineers did not document the procedures performed once the certified payrolls were collected.

We recommend that the City develop a standard form to attach to the certified payrolls that indicates the procedures to perform, that the procedure was performed and when the procedure was performed.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

Telecom Fund:

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.

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 is currently no procedure 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 procedures be implemented to have an individual review and approve this documentation once it is completed.

School Department:

School Petty Cash Accounts

There are minor, immaterial amounts of petty cash funds for the individual schools that are not reflected in the financial statements of the School Department. Although the size of these accounts are small, the School Department should account for the activities of each account.

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

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

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.

Single Audit Issues:

Documentation of Time and Effort – Semi-Annual Certifications

A Local Education Agency that participates in a school-wide program and whose employees compensation is funded solely from a combined school-wide program must have the employees furnish semi-annual certifications that he/she has been engaged solely in activities supported by those funds in accordance with OMB Circular A-87. The School Department participates in a school-wide program. The School Department implemented a policy to have employees who are engaged solely in activities supported by school-wide program funds complete the semi-annual certifications.

However, the School Department also had employees whose time was split between different activities complete semi-annual certifications when Federal regulations indicate that actual time spent on each activity should have been documented. Further, these employees did not complete a timesheet or another form of documentation of time and were instead charged to the Federal grants based on budgeted allocation which is not in compliance with OMB Circular A-87. The amount of questioned costs as a result of this is as follows:

Title I Grant to Local Educational Agencies (CFDA #84.010)	\$21,988
--	----------

In addition, an employee who was charged to the Special Education Grants to States – IDEA B (CFDA #84.027) did not complete a semi-annual certification when they were charged solely to that grant. The amount of questioned costs that resulted was \$22,605.

In addition, indirect costs based on an approved rate of 1.28% were charged to the Title I Grants to Local Educational Agencies (CFDA #84.010) and the Improving Teacher Quality State Grants (CFDA #84.027).

We recommend that the School Department obtain only semi-annual certifications from employees whose compensation is funded solely from a combined school-wide program and that all other employees document time spent on each activity in accordance with OMB Circular A-87.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

Documentation of Time and Effort – Timesheets

The School Department charged salaries to the Title I Grants to Local Educational Agencies (CFDA #84.010), Improving Teacher Quality State Grants (CFDA #84.367), Special Education Grants to States – IDEA B (CFDA #84.027) and Safe and Drug Free Schools and Communities Grant – National Programs (CFDA #84.184L) based on timesheets prepared by the employees. However, the timesheets were primarily completed by staff based on the budgeted staff allocations to the program. The timesheets were also only completed and/or turned in two times during the year. Federal regulations require that grants be charged based on actual expenses or time studies that are performed throughout the year and can be shown to be statistically accurate. Federal regulations also require that timesheets be completed at least monthly and coincide with at least one payroll period. The amount of questioned costs as a result of this is as follows:

Title I Grants to Local Educational Agencies (CFDA #84.010)	\$900,223
Improving Teacher Quality State Grants (CFDA #84.367)	\$ 57,136
Special Education Grants to States – IDEA B (CFDA #84.027)	\$200,343
Safe and Drug Free Schools and Communities Grant – National Programs (CFDA #84.184L)	\$ 79,335

In addition, indirect costs based on an approved rate of 1.28% were charged to the Title I Grants to Local Educational Agencies (CFDA #84.010) and the Improving Teacher Quality State Grants (CFDA #84.367).

We recommend that the School Department have employees complete timesheets at least monthly and make sure that they coincide with at least one payroll period. We also recommend that the School Department have employees complete their timesheets based on actual time that is spent on a Federal program.

Special Education Grants to States Grant – IDEA B Budget Increases

The Special Education Grants to States Grant – IDEA B (CFDA #84.027) 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 Department had six (6) line items over budget by greater than the allowed amount. Three (3) instances were in regards to actual expenses posted totaling \$6,521 where there were no budgeted amounts. The other three (3) instances were in regards to the Professional/Tech Services and Teacher compensation which were budgeted at \$128,621 and the actual expenditures were \$146,599.

We recommend that the School Department amend the grant budget when they make expenditures that are in excess of the budgeted amount by more than the allowed amount by more than the allowed amount.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

Non-Highly Qualified Teachers

The Title I Grants to Local Educational Agencies (CFDA #84.010) indicates that the School Department is to have highly qualified teachers and paraprofessionals teaching the students. If a teacher or paraprofessional is not highly qualified, then the School Department is supposed to send a letter to the parents notifying them that their child is being taught by a non-highly qualified teacher. The School Department is required to maintain documentation and monitor if a teacher or paraprofessional is highly qualified. The monitoring was done by the School Department subsequent to year-end. As a result, the School Department did not send letters to the parents notifying them that their children were being taught by non-highly qualified teachers or paraprofessionals for 2007.

We recommend that the School Department monitor the status of highly qualified teachers and paraprofessionals in a timely manner and send out the required letters to notify parents that their child is not being taught by a highly qualified teacher.

Title I Eligibility

The School Department did not complete weighting average forms or referral forms for students at one of its private schools. These forms are used to determine the eligibility of students. Due to these forms not being present, we were unable to determine if the students at the private school were eligible to receive Title I services under the Title I grants to Local Education Agencies Grant (CFDA #84.010).

We recommend that the School Department obtain the weighting average forms or referral forms for all students to determine if they are eligible to receive Title I services.

Subrecipient Monitoring

The City is required to monitor its subrecipients of Federal awards. The City did not monitor all of the applicable compliance requirements for a subrecipient of the Federal Capital Investment Program (CFDA #20.500). The total amount that was subgranted was \$589,170.

We recommend the City perform and document subrecipient monitoring for all applicable compliance requirements.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

Grant Budget to Actual Comparison Controls

The School Department does not have controls in place to monitor compliance with the Special Education Grants to States – IDEA B budget or to request grant amendments from the grantor. The grant has budgeted amounts for each expense and the grant will not cover expenditures over the approved budget unless the grant is amended.

We recommend the School Department implement controls to monitor budget compliance and to request budget amendments when necessary.

Non-Highly Qualified Teacher Controls

The School Department does not have adequate controls in place to monitor the highly qualified teacher and paraprofessional status. As a result, the School Department did not send a letter notifying the parents that their child was being taught by a non-highly qualified teacher or paraprofessional.

We recommend the School Department follow their controls to properly monitor the highly qualified teacher and paraprofessional status and send the required notification to the parents if the individual is not highly qualified.

Title I Eligibility Controls

The School Department does not have controls in place to ensure that all required documentation is obtained to determine if a student is eligible for Title I services at one of its private schools. During testing, we were unable to determine if three (3) students at one school out of twenty-five (25) students from a total of six (6) schools were eligible to receive Title I services.

We recommend that the School Department implement controls to ensure that all required documentation is obtained to determine if a student is eligible to receive Title I funds.

Subrecipient Monitoring Controls

The City is required to monitor its subrecipients of Federal awards. The City does not have controls in place to ensure that subrecipients are monitored in a timely and proper manner.

We recommend the City implement procedures to ensure that they are monitoring its subrecipients and to document this monitoring process.

CITY OF BURLINGTON, VERMONT
SCHEDULE OF SIGNIFICANT DEFICIENCIES AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2007

Idea-B Budget Account Coding

The School Department does not have controls in place to ensure that the budget line items for the Special Education – Grants to States – IDEA B grant agree with the budgeted amounts in the accounting records. It is important that the budgeted amounts in the accounting records agree with the grant budget by line item to determine if there are excess expenditures.

We recommend that the School Department implement controls to ensure that the budgeted items in the accounting records agree with the budgeted line items in the Special Education – Grants to States – IDEA B grant.

Suspension/Debarment Status of Contractors

The City is required to determine if contracts funded with Federal awards are entered into with parties that have been suspended or debarred by the Federal government. The City does not have a procedure in place to compare the contracted entities to the excluded parties list maintained by the Federal government.

We recommend the City implement procedures to determine if any entity is suspended or debarred prior to entering into a contract with that entity.

Title I Plans

The School Department has controls documented to ensure that the proper documentation is maintained in each student file. However, the School Department was not following their control procedures. The Title I handbook indicates that the following items should be complete and maintained in student files; Title I plans, referral or weighting forms, testing materials and test scores. While reviewing student files, we noted that two (2) out of twenty-five (25) files were missing Title I plans.

We recommend that the School Department follow their controls and maintain the Title I plans in each individual student file.