

CITY OF BURLINGTON, VERMONT

Management Letter

For the Year Ended June 30, 2012

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MELANSON HEATH & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

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

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, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Burlington's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be 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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. Material weaknesses are noted in the table of contents and comment headings.

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. Significant deficiencies are noted in the table of contents and comment headings.

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

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

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

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

Melanson, Heath + Company P.C.
January 24, 2013

1. **Segregate the Accounting and Treasury Functions and Evaluate the Department (Material Weakness)**

Prior Year Recommendation:

In the prior year, we recommended that the City consider segregating the accounting and treasury functions in order to create an environment that properly segregates the City's financial management systems. While the City has certain internal control procedures in place to mitigate the risks associated with a lack of segregation of duties, those control procedures could be overridden.

Current Year Status:

This recommendation has not yet been implemented.

Further Action Needed:

We continue to recommend that the City segregate the accounting and treasury functions in order to create an environment that properly segregates the City's financial management systems. In our opinion, the City should hire a consultant to assist with implementing this recommendation and to help ensure that a redesigned office structure has the sufficient level of expertise.

City's Response:

The City believes that the implementation of the New World system alleviates concerns about combining the accounting and treasury functions. The former system was journal-entry based and nearly all activity was recorded in the Clerk/Treasurer's office. With the new system, recording of transactions is decentralized to each department – purchase orders are issued by the department needing the item, and are approved by the Clerk/Treasurer's office before issuance. A similar process is used when an invoice arrives. For revenue transactions, activity is tracked by the applicable subsystem (RecTrac, for example, in Parks and Recreation), and amounts sent for deposit in the bank are reconciled to the subsystem before being recorded into New World. Bank accounts are reconciled monthly. In addition, the City has begun to use Posi-Pay, which sends electronic copies of all checks issued each day to the bank. If a check is presented for payment to the bank that was not on the Posi-Pay listing, it is rejected and the Clerk/Treasurer's office is notified. Blank check stock is under the control of the Chief Administrative Officer, who is not an authorized signer on any bank account. For wire transfers initiated by the Assistant CAO for Finance, we are instituting a procedure whereby the bank will be required to call the Clerk/Treasurer's office and speak with either the CAO or Assistant CAO for Administration to verify that the wire transfer is authorized.

The authority to make journal entries is held only by the Assistant CAO's and senior accountants in the Clerk/Treasurer's office, and each journal entry is reviewed and approved by a person at a higher level of authority than the preparer. Under the New World system, journal entries are rarely needed as compared to the prior system.

Based upon the procedures and controls implemented in connection with the system conversion, we do not believe that the accounting and treasury functions need to be split into separate departments.

2. **Eliminate Deficit Balances (Material Weakness)**

Prior Year Recommendation:

In the prior year, we recommended that the City adopt a formal (written) plan to improve cash flow and to eliminate the deficit general fund unassigned fund balance. This would improve the financial condition of the City, and reduce the reliance on bank financing to meet normal cash flow requirements.

Current Year Status:

The City has taken certain steps to eliminate deficit balances and improve cash flow, including increasing water and wastewater rates, obtaining reimbursement from various state agencies, obtaining authorization to bond for project expenditures that were incurred in 2009, and authorizing Fiscal Stability Bonds. A summary of significant deficit cash balances as of June 30, 2012 and 2011 is as follows:

	<u>6/30/2012</u>	<u>6/30/2011</u>
• Telecom	\$ 16,936,492	\$ 16,936,492
• Wastewater fund	1,318,620	2,531,914
• Water fund	2,245,679	2,065,706
• Southern connector capital project	628,364	1,211,949
• Westlake garage capital project	564,808	621,031
• Waterfront access capital project	87,139	380,984
• Storm water capital project	432,133	273,264
• CEDO	550,000	550,000
• School project	N/A	1,134,096
• Airport	1,112,299	N/A
	<u> </u>	<u> </u>
Total	<u>\$ 23,875,534</u>	<u>\$ 25,705,436</u>

Further Action Needed:

We recommend that the City continue to monitor these cash deficits on a monthly basis to help ensure timely corrective action can be implemented if needed.

City's Response:

The City is taking steps to collect all deficit balances, and has made further progress through December 31, 2012. For example, water rates were raised effective on July 1, 2013 to provide the cash flow for that department to repay the general fund. Furthermore, the City developed a written plan, which was approved by both the Board of Finance and City Council, in connection with the approval of the issuance of the Fiscal Stability bonds. The Burlington Telecom deficit balance is the subject of litigation and repayment is not expected in the near term.

3. **Develop a More Formal Risk Assessment Process (Material Weakness)**

Prior Year Recommendation:

In the prior year, we recommended that the City implement a more formal risk assessment process that includes written identification of areas where potential fraud or material misstatements to the basic financial statements may occur, as well as how the City intends to respond to those risks, including ongoing monitoring activities. This would help minimize the risk of errors or irregularities occurring and going undetected.

Current Year Status:

This recommendation has not yet been implemented.

Further Action Needed:

We continue to recommend the City implement a fraud risk assessment program, including monitoring controls over any potential related party issues.

City's Response:

In connection with the documentation of internal controls recommended in comment No. 4 below, a more formal risk assessment process will be performed at all departments to identify areas where the potential for fraud or material misstatements exists.

4. **Document Internal Control Components (Material Weakness)**

Prior Year Recommendation:

In the prior year, we recommended that the City document its internal control procedures in accordance with the COSO model. The COSO (Committee of Sponsoring Organizations of the Treadway Commission) model is widely recognized as the standard against which organizations measure the effectiveness of their internal control systems. The COSO components of effective internal control are: Internal Environment, Objective Setting, Event Identification, Risk Assessment, Risk Response, Control Activities, Information and Communication, and Monitoring.

Current Year Status:

This recommendation has not yet been implemented.

Further Action Needed:

We continue to recommend the City document the components of internal control in accordance with the COSO model. We understand, however, that the complete implementation of the new financial management system must occur first and in our opinion, recommendation 1 should be implemented first.

City's Response:

The City has developed policies and procedures in connection with the implementation of the New World financial reporting system that have resulted in changes in processes. Now that the implementation is nearly complete, the Clerk/Treasurer's office will work to complete internal control documentation for each significant process during the year ending June 30, 2013.

5. **Limit Access to the City's General Ledger (Material Weakness)**

Prior Year Recommendation:

In the prior year, we recommended (as part of the implementation of the new financial management system) the City thoroughly review all employees' job descriptions to ensure that permission levels assigned in the new system are appropriate, given the current job descriptions. We further recommended that the City establish a policy whereby any change to an employee's job description occurs in conjunction with management's review of permission/access levels assigned.

Current Year Status:

We understand that this is occurring with the implementation of the new financial management system.

Further Action Needed:

We continue to recommend that the City thoroughly review all employees' job descriptions to ensure that permission levels assigned in the new system are appropriate and a policy be established whereby any change to an employee's job description occurs in conjunction with management's review of permission/access levels assigned.

City's Response:

Access to post to the general ledger in the New World system is limited to only key personnel in the Clerk/Treasurer's office. Specifically, only the Assistant CAO's and senior accountants in the office are permitted to make journal entries, and each entry is approved by someone at a higher level of authority than the preparer.

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

Prior Year Recommendation:

In the prior year, we recommended the City's Accounting 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:

This recommendation has not yet been implemented.

Further Action Needed:

We continue to recommend that the City perform periodic internal audits of the City's departmental accounting records. As noted in comment 1, they City should consider establishing an Internal Audit function.

City's Response:

The City agrees that there are internal audit procedures that can be performed by qualified Clerk/Treasurer's office personnel. At present, we are planning two internal audit procedures which focus on payroll and related accounts, as well as another audit on capital asset acquisition and reporting. We will continue to develop other internal

audit procedures throughout the year, focusing particularly on purchasing processes and related controls.

7. **Improve Monitoring of Capital Projects (Material Weakness)**

Prior Year Recommendation:

In the prior year, we recommended that the City identify causes for all negative cash balances in capital project funds and that the City use the general ledger (not spreadsheets) to maintain a complete accounting of all capital projects.

Current Year Status:

In fiscal year 2012, many requests for reimbursements were filed with the State of Vermont and many of the negative cash positions have improved, however, most projects were not completely monitored.

Further Action Needed:

We continue to recommend that the City utilize the general ledger to maintain complete accounting of all capital projects.

City's Response:

In the New World financial management system, capital projects funds are established to enable the tracking of expenditures to assure, among other things, that the bond proceeds are used for their intended purpose. In the future, a separate capital projects fund will be established for each bond issued for capital purposes.

8. **Utilize a Fixed Asset Accounting System (Material Weakness)**

Prior Year Recommendation:

In the prior year, we recommended that the City implement software to maintain the historical cost and depreciation of capital assets, and develop a written capitalization policy. This would streamline and provide improved reporting over capital assets, would help accelerate the year-end closing process, and would improve the calculations of annual depreciation.

Current Year Status:

This recommendation has not yet been implemented. We understand, however, that the complete implementation of the new financial management system should occur first.

Further Action Needed:

We continue to recommend that the City implement software to maintain the historical cost and depreciation of capital assets, and develop a written capitalization policy.

City's Response:

The City agrees that its fixed asset accounting system is antiquated and does not well serve the needs of the users of that information. Due to the scope of such a project, it is possible that the implementation of a new automated system for fixed assets will have to wait until fiscal 2014. In the near term, the capitalization policy will be reviewed and updated as necessary, and departments involved in capital projects activity and reporting will receive training on the capitalization policy to eliminate the capitalization of minor items, as well as learn how to use Construction in Process to accumulate all costs of a project before it is transferred into the fixed asset accounting system.

9. **Analyze Expenditures of Bond Proceeds (Material Weakness)**

The City annually issues bonds to finance capital projects, as specified in the bond offering document, over a period of multiple years. Because the issues discussed further in comments 7 and 24, the City is unable to efficiently and effectively monitor controls to provide assurance that the bond proceeds are being used exclusively for the purposes specified in the bond offering statements. As a result, there is an increased risk that bonded monies could be spent on activities that were not part of the original offering.

We recommend that the City analyze, in detail, the expenditures incurred and funded by the general fund bond issuances for the past two years. This recommendation will provide the City with the basis to determine if incurred expenditures were consistent with the offering documents. We further recommend that the City strengthen the controls currently in place to provide assurance that bond proceeds are used exclusively for the purpose outlined in the offering documents.

City's Response:

In addition to the efforts described in No. 7 above, the City will go back to the bonds issued in fiscal 2012 and fiscal 2011 to document the use of the bond proceeds and demonstrate that the proceeds were used for their intended purpose(s).

10. **Redesign Vendor and Payroll Approval Process (Material Weakness)**

The current systems for vendor and payroll expenditures processing are not designed consistently or efficiently. Currently all elements of vendor invoice processing is controlled by a single individual without any documented oversight. Payroll is currently processed by three individuals that use two different systems, and each individual processes transactions differently.

Specific recommendations for the vendor disbursement process improvements include, but are not limited, to:

- The vendor clerk should not be permitted to establish new vendors for payment in the accounting system.
- The approval for all invoices should be documented by the Clerk/Treasurer, not simply the vendor clerk.
- Credit card and business related travel expenditures should be reimbursed consistent with polices. It should also be noted these policies have not been updated in over 10 years.
- Budget amendment should be approved prior to incurring expenditure in excess of appropriations. (See Comment 15.)
- Specific eligibility criteria for grant and bond-financed projects should be formally documented.
- The taxability of employee clothing reimbursements in excess of actual costs should be evaluated.

Specific recommendations for payroll disbursement process improvements, includes, but are not limited, to:

- Pay rates should be entered by Human Resources.
- Approved timesheets should be used for all employees.
- The approval for each payroll run should be documented by the Clerk/Treasurer, not simply the Payroll Clerks.

We recommend that the City, in conjunction with the implementation of the new financial management system, redesign systems of internal control over the processing and approval of vendor and payroll transactions to incorporate the above-noted items.

City's Response:

The City agrees with the recommendations made and will work to implement improvements in controls over disbursements and payroll before June 30, 2013.

11. **Improve Documentation of Cash Receipts (Material Weakness)**

In our testing of receipt procedures in the Clerk/Treasurer's Office, we noted that receipts in cash (currency) are not coded as such in the tax receipt system or on the receipt stubs. Because of the increased exposure in handling cash, it is very important that a clear audit trail exist from the time cash is accepted at the counter to the bank deposit.

We recommend the Clerk/Treasurer's Office include a notation on the receipt stub of those payments that were made by cash, and that the office make efforts to ensure currency transactions are coded as such in taxpayer accounts of the receipt system. Also, the amount of currency deposited should be proven to the receipt stubs and daily receipt posting reports. This will improve controls over cash receipts and will minimize the risk of irregularities occurring and going undetected.

We further recommend the City consider replacing the current "cash drawers" with an automated cash register in the Clerk/Treasurer's Office. The benefits of a cash register include: improved internal controls, since more than one individual is responsible for the cashout/reconciliation process; improved audit trail over cash (currency); and potential to automatically link cash register input to taxpayer account postings.

City's Response:

We will evaluate whether a cash register is needed for the customer service clerks in the Clerk/Treasurer's office, and will examine our current processes to ascertain whether changes are needed to improve internal controls over cash. If cash registers are installed, we will reconcile cash and checks separately to the information on the daily cash register "Z" tape.

12. **Review Practice of Extending the Useful Life of Capital Assets (Material Weakness)**

The City has a practice of extending the useful life of many of its major infrastructure capital assets after normal and customary maintenance is performed on the systems. As a result, assets are actually being depreciated over a much longer period, resulting in an overstatement of the asset's net book value.

We recommend that the City review the practice of extending the useful life of capital assets to ensure it is consistent with generally accepted accounting principles (GAAP). As part of this review, the City should also look at the original useful life assigned to other major capital assets, such as building and improvements for possible impairments. This will help assure that capital assets are being depreciated over their useful lives and in accordance with GAAP.

City's Response:

In connection with the implementation of an automated fixed asset accounting system and review of our capitalization policy, we will clarify what factors must be considered to justify a change in the remaining life of a fixed asset.

13. **Improve Controls over CEDO Special Revenue Fund Activities (Significant Deficiency)**

Prior Year Recommendation:

In the prior year, we recommended the City (1) reevaluate the job responsibilities of the Assistant Finance Director to assure an adequate segregation of duties exists, (2) discontinue the use of manual checks, (3) post all receipts and disbursements in the general ledger immediately, (4) record receivable activity in general ledger throughout the year, and (5) perform regular monthly reconciliations of general ledger receivable activity of general ledger receivable activity. This would improve controls over CEDO activity and improve the accuracy of general ledger records.

We also recommended the CEDO fund chart of accounts segregate "loans received in advance" from "deferred revenue", and discontinue the tracking of loan allowances in a separate fund 3001, but instead track with the applicable general ledger receivable accounts. This would simplify the accounting and reconciling of general ledger receivable and corresponding deferred revenue accounts.

Current Year Status:

Several prior year recommendations over CEDO Special Revenue Funds were implemented. The items noted above have not yet been implemented.

Further Action Needed:

We continue to recommend that the City implement the aforementioned CEDO recommendations.

City's Response:

We agree that improved processes are needed in CEDO as a result of its myriad of funding sources and various projects it is involved in. In connection with the review of CEDO processes, the City will address all of the specific items noted above. Furthermore, the CEDO chart of accounts in the New World accounting system has already been modified to accommodate its unique accounting and reporting needs.

14. **Consider Discontinuing Deferral of Principal Payments**

Historically, many of the City's bond issues were issued whereby the repayment of principal was deferred for many years. Examples include: \$14m wastewater bond, \$4m wastewater bond (paid off in full during fiscal year 2011), \$17.6m airport terminal bond and \$1.9m BCDC bond. The practice of deferring principal payments could result in a structural in-balance of the budget as many years of revenue are earned from the assets constructed with the bond; however, no principal payment is being made on the bonds. Additionally, several bond issuances are structured with increasing principal payment (rather than level principal payments) which could also lead to a structure in-balance.

While we recognize that the recent Airport Refunding Issuance addresses some of these concerns; we recommend that the City discontinue the practice of structuring bond repayment schedules with deferred or increasing principal payments.

City's Response:

It is the City's intention that all future bond issues have level debt service payments throughout the term of the bond issue, similar to what was accomplished with the recent Airport refunding revenue bond issue. The \$14 million balloon payment on the wastewater bond will have to be refinanced; however, since it bears a zero interest rate, we will wait until December 2014 to close on the refinancing. Further, when practicable, we will establish debt service reserve funds for all outstanding bonds that

have balloon payments. Finally, if possible, we will refinance the BCDC debt so that payment requirements better match the incoming payments from lessors.

15. **Eliminate Over-expenditures**

In fiscal year 2012, several General Fund departments (and several other funds) over-expended the annual appropriations. As a result, the positive effects of revenue surpluses were mitigated by the over-expenditures. We also noted that budget adjustments were not approved or posted to the general ledger until well after fiscal year-end.

We recommend that the City monitor appropriation balances and establish a system whereby budget amendments are approved and posted to the accounting system prior to incurring over-expenditures. We recognize that the implementation of the new financial management system will assist in this process. This will improve documented oversight over City appropriations and reduce the risk of over-expenditures occurring.

City's Response:

The City's new financial reporting system does not permit invoices or purchase orders to be processed when there is not enough left in the appropriation for that item, except for payroll expenses which by necessity have to post regardless of whether there is enough in the remaining appropriation. Those payroll over-expenditures, when they occur, are scrutinized by the relevant department head during their monthly review of the Budget Performance Report. If the situation remains unresolved, the Clerk/Treasurers office will follow up with the department head to resolve the over-spending situation by transferring funds from another account within the department.

16. **Prepare Monthly Financial Statements**

The City does not prepare monthly financial statements for review by management and those charged with governance. As a result, operating results (revenues and expenditures/expense compared with budgets) are not completely reviewed by the City, generally until the annual audited financial statements are prepared.

We recommend that the City prepare (or produce from New World systems) monthly financial statements, including actual revenue and expenditures/expense compared

with budgets. This will aid management and those charged with governance in assessing current year operating results and respond to changing circumstances.

City's Response:

Monthly budget performance reporting for department heads began with the period ended December 31, 2012 and will continue each month of the fiscal year. The Clerk/Treasurer's office will work with the Board of Finance and City Council to determine the level of detail that they are interested in seeing and a custom report will be prepared on that basis.

17. **Review Future Cash Flow of Burlington Community Development Corporation**

Our review of the Burlington Community Development Corporation's financial statements indicates that future cash flows of the Corporation may be unbalanced. Specifically, the rate of payments on the Corporation's liabilities outpaces the collection of receivables for several years, cumulating with balloon payments scheduled for fiscal year 2021.

We recommend that the City fully review the cash flow projection for the Burlington Community Development Corporation and if necessary begin planning for corrective action.

City's Response:

As indicated above under item 14, we will attempt to refinance the BCDC debt to better match incoming lease payments with debt service requirements.

18. **Formalize a Fund Balance/Net Asset Policy**

The City does not have a formal (written) fund balance policy to provide guidance in maintaining a required or desired level of unassigned fund balance and set policy over other types of governmental fund balances. As a result, inconsistent classification of other types of governmental fund balance may exist. The other types of government fund balance include nonspendable, restricted, committed, and assigned, the definitions of which can be found in the City's basic financial statements.

A formal fund balance policy should include (but not limited to) the following:

- Specify required/desired level of unassigned fund balance and unrestricted net assets.
- Specify prioritization of use of fund balance amounts when multiple sources are used for one project, grant or activity (i.e., general fund monies are appropriated to partially fund a capital project, or a grant match).
- Specify the body or official authorized to make assignments of fund balance and define time constraints on each assignment.
- Distinguish between encumbrances (commitments related to contracts not yet performed and orders not yet filled) and other assignments (previously called designations).
- Define any approval process for modifying existing assignments.

We recommend that the City formalize a fund balance/net asset policy to provide guidance over the above noted areas. This will help the City achieve desired fund balance/net assets levels and consistent financial statement classifications.

City's Response:

The City will develop a comprehensive policy with respect to the desired level of available fund balance, which will also include the prioritization of the use of various funding sources, and define the approval process for establishing assigned and committed fund balance amounts. Restricted amounts will only include those funds restricted by external sources.

19. **Prepare to Implement GASB 68**

Beginning in fiscal year 2015, the City is required to implement the Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and Financial Reporting for Pensions* that will require the unfunded pension liability be recognized on the City's Statement of Net Assets, including enterprise funds. The implementation of this accounting standard will have a material impact on the City's basic financial statements.

We recommend the City begin planning for the implementation of GASB 68, which includes gaining an understanding of the new requirements, educating applicable financial statement users, and ensuring that the City's applicable portions of unfunded retirement system's unfunded liability is available for inclusion in the financial statements.

City's Response:

The City Council held a work session on January 28, 2013 to gain a better understanding of the 2012 actuarial valuation and the impact it has on the financial statements. As part of that session, the new accounting standard was explained to the participants. As the implementation date draws closer, and the City makes efforts to resolve the pension underfunding situation, the impact of GASB 68 on the City's financial statements will continue to be evaluated.

20. **Improve Accounting of Impact Fees**

The City maintains separate spreadsheets to account for Impact fees for each fiscal year that fees have been collected. However, there is no one comprehensive accounting of all Impact fees to determine total amounts assessed, collected, spent, as well as evaluation of possible refunds due (if fees have not been spent within the time constraints).

We recommend that the City consolidate the multiple Impact fee spreadsheets to create one comprehensive life to date accounting. This will improve accountability and documented monitoring of Impact fee financial records.

City's Response:

We agree that the use of multiple spreadsheets for basic accounting requirements increases the possibility for errors to occur, especially if there are separate spreadsheets for each year. All impact fee accounting will be combined into one comprehensive file during fiscal 2013.

21. **Follow Through on TIF District Recommendations**

In June 2012, the Vermont State Auditor issued a report on the City's establishment and administration of the waterfront tax increment financing (TIF) district. The report included five specific recommendations. We recommend that the City follow through with these recommendations.

City's Response:

The City is presently engaged with the relevant state departments and commissions in attempting to address legislative fixes to the problems identified by the Vermont State Auditor in its June 2012 report. At least two bills are being presented in the 2013 legislative session to address TIF concerns. Consequently:

- (a) the City anticipates that use of incremental property tax revenue for payment of the certificates of participation related to the 1991 purchase of the Urban Reserve (Recommendation # 1) will either be recognized in statute as authorized or the City will reach some other mutually satisfactory understanding with the State as to how to address that issue going forward.
- (b) the City anticipates that a legislative fix with either clarify the calculation of incremental property tax revenue by specifying which components of the municipal tax rates do not have restricted uses approved by the legislature and the City will calculate accordingly (Recommendation # 2), or the City will reach some other mutually satisfactory understanding with the State as to how to address that issue going forward.
- (c) the City has always maintained that the State Auditor's report concluded incorrectly that the City owed any payment at all back to the state education fund (Recommendation # 3). At a March 6, 2013 press conference in Winooski, Vermont, Governor Shumlin announced that his administration was recommending that recoupment of sums alleged in the State Auditor's reports (to include the June 2012 report concerning Burlington) should not be pursued and that there was no legal mechanism for doing so.
- (d) the City will consult with its City Attorney going forward and, upon enactment of any new legislation arising from the 2013 session, will designate a city official to be responsible for reviewing the statutory requirements for reporting and to document policies and procedures to ensure timely and accurate reporting (Recommendation # 4).
- (e) the City will consult with its City Attorney going forward and, upon enactment of any new legislation arising from the 2013 session, will designate a city official to be responsible for establishing and monitoring performance measures (including numerical targets for all measures) in a manner which is both sufficient and relevant for Waterfront TIF projects going forward (Recommendation #5).

22. **Revise Procedure for Grant Accounting**

Prior Year Recommendation:

In the prior year, we recommended that the City establish a separate grant fund to track all non-CEDO grants, and a separate capital project fund for each annual bond issuance. The general fund is currently used by the City to account for many activities that would be more appropriately accounted for as special revenue or capital project funds. Specifically, City grants (other than CEDO which is tracked in a special revenue fund) and the City's appropriation for projects funded by the annual bond issuance (typically about \$2m), are accounted for in the general fund. As a result, the monitoring of results of operation compared to estimated amounts is substantially more difficult. Implementation of this recommendation would simplify overall financial reporting and monitoring activity, and perhaps accelerate the year-end closing process.

Current Year Status:

We understand that the City believes that the Chart of Accounts in the new financial management system will address this issue.

Further Action Needed:

We continue to recommend that the City establish a separate grant fund to track all non-CEDO grants, and a separate capital project fund for each annual bond issuance.

City's Response:

Separate grant (project) accounting for each grant is now established in the general ledger to allow departments to better analyze and report on grant activity. A separate set of accounts is now established for each grant received.

23. **Improve the General Ledger Chart of Accounts**

Prior Year Recommendation:

In the prior year, we recommended that that the City consider certain factors when designing the chart of accounts for the new financial management system. In the prior year, the following account reconciliation and financial reporting functions were negatively impacted by deficiencies in the chart of accounts:

- Transfers between funds were only reconciled at year-end because the movement of monies from one fund to another was often posted between a transfer

account and an expenditure account rather than two specific (offsetting) transfer accounts.

- Debt service and capital expenditures were difficult to identify, complicating reconciliations between budgetary basis reports and reports generated in accordance with generally accepted accounting principles.
- A substantial number of spreadsheets were maintained in order to track department (or division) specific activity. This situation existed not only in the Clerk/Treasurers' office but at the Airport and CEDO as well.
- The chart of accounts was not designed to monitor enterprise fund capital activity.

Current Year Status:

We understand that the City believes that the Chart of Accounts in the new financial management system will address this issue.

City's Response:

The new chart of accounts in our New World financial reporting system has consolidated the large number of accounts that were utilized in Pentamation, the old system. Further, as departments are not homogeneous in terms of the types of expenses that are incurred, custom accounts for departments' use have been set up as needed.

24. **Improve Segregation of Duties for Utility Activity and Documented Oversight**

Prior Year Recommendation:

In the prior year, the Utility Coordinator of the City's Water, Sewer, and Wastewater funds was involved in customer billings, collections, and general ledger postings. Also, the documentation to support daily receipt cash outs did not include signatures of all staff involved in the counting, reconciling, and oversight process. These situations increased the risk of errors or irregularities occurring and going undetected.

We recommended that the City reevaluate the job responsibilities of the Utility Coordinator to assure an adequate segregation of duties exists. We also recommended that all personnel involved in the daily cash out and oversight sign off on the cash out forms, that copies of the cash register "Z report" be included in the turnover package to the Treasurer/Clerk, and that a Treasurer/ Clerk signed copy of the turnover form be retained by the Water/Wastewater/Stormwater Department. This

would improve controls and documented oversight over the customer billing and collection process.

Current Year Status:

During current year testing, the following items were resolved:

- Copies of the cash register “Z report” are now being included in the turnover package to the Treasurer/Clerk.
- The Treasurer/Clerk signed copy of the turnover is now being retained by the Water/Wastewater/Stormwater Department.

Further Action Needed:

We continue to recommend that the City reevaluate the job responsibilities of the Utility Coordinator to assure adequate segregation of duties exists. We also continue to recommend that all personnel involved in the daily cash out and oversight sign off on the cash out forms.

City’s Response:

We believe the new accounting & financial system, New World, has allowed for further segregation of job responsibilities for the Utility Billing Coordinator. This position no longer has posting rights to the general ledger – this person can only complete the data entry and submit that work to the Assistant Chief Accountant for final approval and posting. This change in access and job duties was effective beginning in fiscal 2013. The Assistant Director of Water Quality continues to provide further oversight of the Utility Billing Coordinator by reviewing and signing all month end activities.

The Utility Billing Coordinator is responsible for oversight/supervision of two Customer Service Associates. These Associates are responsible for all daily activities, including payment processing, billing, etc. Because the office only has three employees, the Utility Billing Coordinator must be able to step in and process daily activities in the event that one or both Customer Service Associates are unavailable. In FY12, this occurred on 13 occasions. Unless the Water Division moves all payment processing (including walk-ins) to lock box or hires an additional employee, we do not believe this concern can be completely mitigated. It is further complicated by the Customer Service Associate positions being Union and those employees cannot be consistently denied time off on the same day without just cause. We believe a supervisor should be capable of performing all job duties but understand that this should be limited to assure adequate segregation of duties.

Effective in fiscal 2013, all personnel involved in the daily cash out do sign the back-up paperwork (retained both at the Water Department and at the Clerk/Treasurer's office). The Utility Billing Coordinator does not sign this paperwork on a daily basis but reviews it four times per month for irregularities. We believe the changes that have been made provide for an adequate segregation of duties.

25. **Improve Controls over Church Street Marketplace Fund**

Prior Year Recommendation:

In the prior year, we recommended the City reevaluate the job responsibilities in the Church Street Marketplace fund, and at a minimum, improve the documented oversight of customer billings, adjustments, and collections. We also recommend the Department document the reconciliation of revenues to the general ledger on a quarterly basis.

Current Year Status:

This recommendation has not yet been implemented.

Further Action Needed:

We continue to recommend that the City reevaluate the job responsibilities in the Church Street Marketplace fund, and at a minimum, improve the documented oversight of customer billings, adjustments, and collections.

City's Response:

While the Church Street Marketplace has made improvements over the past year, it has been hampered in certain respects due to the unavailability of a key employee, resulting in temporary assistance to fill in as necessary. As a result, all of the recommended changes from the prior year were not implemented by June 30, 2012.

Common area fees represent over 73% of Marketplace revenues, and are reasonably predictable. The Clerk/Treasurer's office is responsible for collection of the amounts due, and follows up with the Executive Director if a payment is late. Other revenues, including vendor cart fees, sidewalk café fees and rent/lease payments, are also subject to the cash receipt and cash reconciliation procedures of the Clerk/Treasurer's office. In order to further strengthen the controls in this area, the Marketplace staff will begin reconciling its revenue and receivable balances to amounts recorded in the New World general ledger on a monthly basis, to verify that revenue and receipt transactions recorded by the Clerk/Treasurer's office are accurate.

26. **Reconcile Pension Fund General Ledger**

Prior Year Recommendation:

In the prior year, we recommended the City establish procedures to reconcile the detail member contributions report, pensions paid report, and refunds paid report to applicable general ledger revenue and expense control accounts on a quarterly basis. This will improve oversight and will help assure the accuracy of the general ledger information.

Current Year Status:

This recommendation has not yet been implemented.

Further Action Needed:

We continue to recommend that the City reconcile the detail member contributions report, pensions paid report, and refunds paid report to applicable general ledger revenue and expense control accounts on a quarterly basis.

City's Response:

The City will perform this reconciliation on a quarterly basis. The implementation of the New World retirement module (part of the Human Resources eSuite of applications) later this spring will facilitate this process.

27. **Automate Pension Fund Member Files**

Prior Year Recommendation:

In the prior year, we recommended the City consider automating (or at a minimum scanning) the member files and member ledger, and retaining a copy offsite. Automating the records may improve efficiencies, and retaining files offsite will help assure critical information is not lost in the event of a facility disaster.

Current Year Status:

This recommendation has not yet been implemented.

Further Action Needed:

We continue to recommend that the City automate the member files and member ledger, and retain a copy offsite.

City's Response:

The implementation of the New World retirement module (part of the Human Resources eSuite of applications) later this spring will automate these processes.