

CITY OF BURLINGTON, VERMONT

Management Letter

For the Year Ended June 30, 2016

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Additional Offices:

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

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

In planning and performing our audit of the basic financial statements of the City of Burlington, Vermont as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

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

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

The City's written responses to our comments and suggestions have 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, and others within the City, and is not intended to be, and should not be used by anyone other than these specified parties.

Melanson Heath

January 5, 2017

1. **Continue to Improve Monthly Reconciliations**

Prior Year Recommendation:

In the prior year, we recommended that the City continue the process of improving the general ledger reconciliation to ensure a more timely closing process. Implementation of this recommendation will increase the reliability of interim financial reports and help to minimize the risk of undetected errors and or irregularities. We also recommended that the City fully implement “Project Accounting” or expand the number of funds used.

Current Year Status:

In fiscal year 2016, the City continued to make significant improvements in the monthly general ledger reconciliations process. However, during the 2016 audit process (October 2016), the City was still posting significant journal entries and/or evaluating fiscal year 2016 operating results in the following funds:

- Capital project fund accounting
- Tax increment financing
- Interfund activity

Also, recent long-term bond refunding activity has increased the complexity of the accounting and financial reporting of bonds payable and their related premiums, net of discounts, and the gain or loss on the refunding. As a result, the City was making adjustments to the June 30, 2016 year-end schedule as late as December 2016.

Further, in fiscal year 2016 the City created a life-to-date revenue and expenditure statement for the Waterfront Access North Capital Project fund using the “Project Accounting” module within the new financial management system. The preparation of life-to-date reports for other projects has been difficult given the structure of the fund numbers originally created in 2013.

Further Action Needed:

We recommend the City continue efforts to streamline the general ledger reconciliation improvements made during the past few fiscal years. We also recommend that the City establish new general ledger funds for each new capital project that are either specifically identified or as a component of the annual borrowing. The new funds will permit the preparation of needed life-to-date revenue and expenditure statements. Finally, the year-end closing process of capital funds should be expanded to include a review of individual fund balances associated with each fund.

We also recommend that the City improve the preparation of the long-term debt activity schedule and their related premiums, net of discounts, and the gain or loss on the refunding. We further recommend that the City consider preparing the report on a quarterly rather than annual basis. The quarterly preparation of the report will permit for the earlier identification of general ledger adjustments and will shift the time required to analyze the refundings to earlier in the City's normal general ledger closing process.

City's Response:

The Clerk Treasurer Office acknowledges the importance of building on the improvements already made in our general ledger reconciliation to ensure a more timely closing process. In addition, we accept the recommendation to expand the number of funds used. We acknowledge that fund accounting is unique to nonprofit organizations, and the preparation of life-to-date report for projects is difficult based upon the fund numbers created in fiscal year 2013. To ease the overall tracking of major projects that were multi-year and sizeable in nature, we should have created separate funds. The creation of separate funds would make overall reporting easier and allow for carryover of funds.

We will create a separate category of capital asset of funds that are multi-year, and typically in excess of \$1 million. The purpose of using fund accounting is it will allow the City of Burlington to manage the diverse streams of revenue that we receive and to monitor the restrictions often attached to that revenue. A separate fund will have its own revenue and expense report, and its own balance sheet. We will work with our auditors, and then our departments, to ensure funds created meet the criteria of being multi-year, are sizable in nature, and will allow for overall ease of monthly reconciliations. Additionally, this methodology will assist us with TIF audits and overall ensure that projects are staying within approved overall budgets.

On a similar note, we accept the recommendation that the Clerk Treasurer Office improve the preparation of the long-term debt activity schedule and related premiums, net discounts, and the gain or loss on the refunding. The City's financing activity and refinancing activity, debt compliance, financial reporting, forecasting, and management of City debt payments are sizeable, and the greatest in over a decade. The previous methods used to reconcile accounts need to be improved to better manage current debt load, and the higher expectation of financial reporting.

To correct and streamline the challenges, the Clerk Treasury Office has built a Debt Management Database (DB). We worked with and received input from our escrow agent and financial advisor to utilize tools used from Digital Assurance Certification (DAC) and Electronic Municipal Market Access (EMMA). We used this information to create and build a DB that will significantly eliminate redundancies of various reporting formats, and streamline the monthly tracking and reporting of the debt.

Lastly, with the restructuring of the Clerk/Treasurer's Office, and specifically the change in job descriptions for the accounting staff, we now have a key point person who has a clear responsibility to oversee the areas of issues identified in this finding. This

more targeted structure will allow us both to continue to focus in on these issues, and more quickly respond to concerns or areas to improve.

2. Increase Frequency of Transmitting Retirement Contribution Data

The Burlington Employee's Retirement System (the System) currently receives three files annually (from Burlington School District, Burlington Electric Department and City of Burlington) of employee contribution data that is reconciled with the dollars that are transferred following pay periods. As a result, the reconciliations have become overly complex and members' data history is not current. Also, the data received from Burlington School District does not allow for the System to easily determine the completeness and accuracy of the pensionable wages of applicable District employees.

We recommend that the System re-design and streamline how contribution data is transmitted by the three employers. At a minimum, quarterly transmission of the data should be performed; however, monthly transmission should be the long-term goal. We also recommend that the System meet with the School District to review the data required to be transmitted that will allow the System to ensure the completeness and accuracy of the pensionable wages.

City's Response:

The City acknowledges that we receive information from three sources: the Burlington Employee's Retirement System (BERS), Burlington School District (BSD), and the Burlington Electric Department (BED).

BERS currently services its members using various systems, both computerized and manual. At the core of this is a three-plus year, Microsoft Access Data "Pension Tracking System" that was customized and built in-house that tracks retirees, vested, and active plan members, consisting of approximately 2,300 members. It should be noted the City has at this time no access to BED or BSD data and is not able to verify the accuracy of data received, and struggles to collect required data in a timely manner.

Beginning in 2015, under new provisions of Government Accounting Standards (GASB) 68 the unfunded actuarial accrued liabilities for public pensions needed to report the share of unfunded liabilities to the general fund and all enterprise funds. A retrospective look required all employees from the inception of BERS to be identified to respective funds to record the unfunded liability. This additional reporting requirement has added a new challenge to annual actuarial year-end reporting, and required the City to investigate additional software options to simplify our processes, and existing systems.

Based on the challenges sighted, we elected to use your recommendation to send a formal RFP for a Defined Benefit Administration (Software) system (BAS). The RFP process was successful and resulted in awarding a contract with Pension Technology Group (PTG) for software services. The Clerk Treasury Office will work with PTG

for a system re-design and streamline how contribution by the three employers is transmitted.

Additionally, we will meet with BSD and BED to review this finding and jointly develop a plan to further improve the process and quality of data supplied to us.