

CITY OF RUTLAND
RUTLAND, VERMONT

AUDITORS' REPORT
IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2010

Corrette & Associates, P. C.

CITY OF RUTLAND, VERMONT

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Aldermen
City of Rutland, Vermont

Compliance

We have audited the City of Rutland, Vermont's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City of Rutland, Vermont's major federal programs for the year ended June 30, 2010. The City of Rutland, Vermont's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Rutland, Vermont's management. Our responsibility is to express an opinion on the City of Rutland, Vermont's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Rutland, Vermont's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Rutland, Vermont's compliance with those requirements.

As described in items 10-06, 10-12, 10-13 and 10-14 in the accompanying schedule of findings and questioned costs, the City of Rutland, Vermont did not comply with requirements regarding Equipment and Real Property Management, Reporting, and Cash Management, that are applicable to its Clean Water State Revolving Loan Fund grant – CFDA: 66.458, Community Policing grant – CFDA: 16.710, and ARRA – Justice Assistance grant – CFDA: 16.804 and the compliance requirement related to Subrecipient Monitoring for non-major programs. Compliance with such requirements is necessary, in our opinion, for the City of Rutland, Vermont to comply with the requirements applicable to these programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the City of Rutland, Vermont, did not comply, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the City of Rutland, Vermont, is responsible for establishing and maintaining effective internal control over compliance with the requirement of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Rutland, Vermont's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Rutland, Vermont's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 10-06, 10-12, 10-13 and 10-14 to be material weaknesses.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

The City of Rutland, Vermont's responses to these findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Rutland, Vermont's responses and, accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rutland, Vermont as of and for the year ended June 30, 2010, and have issued our report thereon dated February 22, 2011 which contained

qualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, except for the effect on the supplementary information of not establishing procedures and controls for recording and reporting proprietary fund capital grant revenues and expenditures, not accurately recording, reporting or valuing long-term receivables, and not recording or monitoring the historical cost of capital assets and current capital asset acquisitions, as described in paragraph three of the Independent Auditor's Report on the City of Rutland, Vermont's financial statements for the year ended June 30, 2010, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the Board of Aldermen, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Corrette & Associates, P.C.
February 22, 2011
Vermont License #092-0000130

**CITY OF RUTLAND, VERMONT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

<u>Federal Agency/Program Title</u>	<u>State Grant Contract #</u>	Catalog of Federal Domestic Assistance <u>Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture:			
Wildlife Habitat Incentive	WHIP-7216446A	10.914	<u>1,468</u>
Total U.S. Department of Agriculture			1,468
U.S. Department of HUD - passed through VT Agency of Commerce and Community Development:			
Block Grant – PACE	0181/051G	14.228	20,000
Block Grant – Berwick Site Redev.	07110/0181	14,228	30,000
Block Grant – SBD Marketing Grant	07110/PG-11-2007	14.228	<u>15,000</u>
Total U.S. Department of Housing and Urban Development			65,000
U.S. Department of the Interior - passed through VT Department of Forests, Parks & Recreation:			
Outdoor Recreation – Rotary Park	06130-50-00570	15.916	<u>57,232</u>
Total U. S. Department of the Interior pass-thru program			57,232
U.S. Department of Justice - Direct programs			
Byrne Justice Assistance Grant	2006/2008/2009	16.580	135,276
Bulletproof Vest Partnership	OJP-BJA-BVP	16.607	2,723
Community Policing Grant	2009-CK-WX	16.710 *	160,501
Enforcing Underage Drinking Laws	2008-AH-FX	16.727	320
Byrne Justice Assistance Grant	2007-DJ-BX-0330	16.738	20,516
ARRA - Byrne Justice Assistance Grant	2009-SB-B9-1211	16.804 *	<u>27,947</u>
Total U.S. Department of Justice			347,283
U.S. Department of Transportation - passed through VT Agency of Transportation:			
Highway Planning and Construction		20.205	166,292
Trail Crew Leader Grant	06130-NRTF09-04	20.219	3,855
Highway Safety Program	02140-0808-2121	20.600	22,969
Repeat offenders for DUI	NRTF-08/04-09/04	20.608	<u>227</u>
Total U.S. Department of Transportation			193,343

See accompanying notes to schedule of expenditures of federal awards

**CITY OF RUTLAND, VERMONT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

<u>Federal Agency/Program Title</u>	<u>State Grant Contract #</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Expenditures</u>
U.S. Environment Protection Agency:			
ARRA - Clean Water State Revolving Loan Fund		66.458 *	579,011
Clean Water State Revolving Loan Fund		66.468	<u>9,565</u>
Total U.S. Environmental Protection Agency			588,576
U.S. Department of Homeland Security - passed through VT Department of Public Safety:			
Homeland Security Block Grant	2007-GE-T7-0049	97.067	16,398
Evidence Forfeiture Fund	None	99.999	<u>3,505</u>
Total U.S. Department of Homeland Security			19,903
Total expenditures of federal awards			\$ <u>1,272,805</u>

* - denotes a major program

See accompanying notes to schedule of expenditures of federal awards

**CITY OF RUTLAND, VERMONT
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR YEAR ENDED JUNE 30, 2010**

NOTE 1. Single Audit Reporting Entity

The financial reporting entity, as defined by GASB codification, consists of the primary government, the City of Rutland, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Mayor and Board of Aldermen are able to impose their will on the following organizations, establishing financial accountability:

The Rutland Redevelopment Authority

NOTE 2. Summary of Significant Accounting Policies

A. Basis of presentation – The information in the accompanying schedule is presented in accordance with the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

1. Federal Award - Pursuant to the Single Audit Act and OMB Circular A-133, federal award means federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities. The City receives direct federal awards and awards passed through the State of Vermont.
2. Federal financial assistance – In the Single Audit Act and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Federal financial assistance does not include federal cash payments to individuals.
3. Major and nonmajor programs – OMB Circular A-133 establishes criteria for determining major programs and selecting these federal programs to be tested for compliance with program requirements. The major programs selected and tested for the year ended June 30, 2010 were:

<u>Federal Agency/ Department</u>	<u>Program</u>	<u>CFDA</u>
U. S. EPA	Clean Water State Revolving Loan Fund	66.458
U. S. DOJ	Community Policing Grant	16.710
U. S. DOJ	ARRA – Justice Assistance Grant	16.804

**CITY OF RUTLAND, VERMONT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED JUNE 30, 2010**

NOTE 2. Summary of Significant Accounting Policies (continued)

A. Basis of presentation (continued)

4. The Clean Water State Revolving Loan Fund, CFDA # 66.458, is a combination of a federally-guaranteed loan and grant subsidy. The federal expenditures are expected to be 92% of the total provided funds and the grant provides that 50% of the total award amount will be forgiven at project completion.

B. Basis of accounting – The City receives federal funds under various grant programs and records this activity in the proprietary and governmental funds using the fund basis of accounting. The City utilizes the full accrual basis of accounting for its proprietary funds and the modified accrual basis of accounting for all governmental funds. The accompanying schedule of expenditures of federal awards reflects the basis of accounting of the funds used by the City. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in the financial statements.

C. Subrecipients

The City of Rutland, Vermont provided \$30,000 in federal awards to the Program of All-Inclusive Care for the Elderly (PACE) as a subrecipient for the year ended June 30, 2010 from the U.S. Department of Housing and Urban Development in the form of a Community Development Block Grant.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

A. Summary of Audit Results

1. The auditors' report expresses a modified opinion on the financial statements of the City of Rutland, Vermont.
2. Twelve significant deficiencies were disclosed during the audit of the financial statements and are reported in the Report on Internal Control over Financial Reporting and On Compliance with Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards. Seven of these are reported as material weaknesses.
3. We identified four instances of noncompliance material to the financial statements of the City of Rutland, Vermont, which would be required to be reported in accordance with *Government Auditing Standards*, disclosed during the audit.
4. Four significant deficiencies in internal control of major federal programs disclosed during the audit are reported in the Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133. Each of these significant deficiencies is a material weakness.
5. The auditor's report on compliance for the major federal programs for the City of Rutland, Vermont expresses an adverse opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with OMB Circular A-133 are reported in the accompanying schedule.
7. The programs tested as major programs are the Clean Water State Revolving Loan Fund, CFDA 66.458, the Community Policing Grant, CFDA 16.710, and ARRA – Justice Assistance Grant, CFDA 16.804.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The City of Rutland, Vermont did not qualify as a low-risk auditee.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

B. Findings – Financial Statements Audit

Material Weaknesses

10 – 01: Internal Control Risk Assessment

Condition: The City has not conducted a complete internal risk assessment necessary to identify weaknesses in internal control that should be designed to prevent or detect material misstatement due to error or malfeasance. This is a repeat finding.

Criteria: Generally accepted accounting principles require organizations to perform a risk assessment of all cycles of transactions to determine internal control deficiencies and fraud risks.

Cause: There are no procedures for conducting risk assessments.

Effect: Because of the lack of complete risk assessment the City has failed to mitigate risks and improperly reported its assets and liabilities in its reporting system.

Recommendation: The City should conduct a government-wide review of fraud and internal control risk that assesses these risks and develop a plan to mitigate these risks.

Management Response: Management agrees that a city-wide risk assessment should be accomplished. Management believes it should be done by an independent firm, distinct from the independent auditor.

10 – 02: Inadequate Controls over Financial Reporting

Condition: Inaccurate recording of financial activity in the General Ledger.

Criteria: Generally accepted accounting principles require organizations to record and report financial activity timely and accurately to allow management effective monitoring and budgetary compliance.

Cause: The City has not established procedures to ensure accurate recording of activity in the General Ledger.

Effect: Inaccurate or delayed recording of Cash balances, Accounts Payable, Deferred Revenue, and Taxes receivable.

Recommendation: The City should establish procedures that provide for greater accuracy in financial recording decisions.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

B. Findings – Financial Statements Audit (continued)

Material Weaknesses (continued)

Management Response: The City agrees changes are needed to improve procedures, to avoid similar findings, especially procedures relating to year end cut-off policy for City departments and for the Treasurer's Office.

10 – 03: Notes Receivable Monitoring

Condition: Failure to recognize and monitor all long-term notes receivable. This is a repeat finding.

Criteria: Generally accepted accounting principles require organizations to report and monitor all financial assets.

Cause: The City has not established procedures to ensure accuracy and monitoring of long-term notes receivable from external organizations.

Effect: Understated assets and related government-wide net assets on the City's financial statements.

Recommendation: The City should establish procedures to monitor the status and present value of all notes receivable.

Management Response: Notes receivable filed with the City Clerk have been reviewed and are now believed to be accurate. A policy will be developed to instruct the RRA and/or the City to file these documents in a central location as well as the City land records, with the support of the City Clerk and City Attorney's Office.

10 – 04: Resolution of Interfund Receivables and Payables

Condition: Internal pooled cash account management creates material interfund loans for which no specific plans to resolve have been developed. This is a repeat finding.

Criteria: Generally accepted accounting principles require that organizations establish specific plans to repay interfund loans.

Cause: The City has not established procedures to ensure that each operating fund has adequate resources to fund its activities and relies on a pooled cash account to smooth activities across the fiscal year.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

B. Findings – Financial Statements Audit (continued)

Material Weaknesses (continued)

Effect: Overstated, available fund balance in the General Fund which directly affects tax rate development.

Recommendation: The City should establish procedures to regularly resolve interfund loans.

Management Response: The Treasurer has requested the City Governance to resolve the long-standing interfund payable to the General Fund from the Parking Meter Fund. The Water Fund and the Sewage Disposal Fund interfund payables must be resolved through policy development to ensure these funds are self-supporting.

10 – 05: Expense Authorization

Condition: The City has not developed procedures to ensure that activity processed on behalf of the Rutland Redevelopment Authority is properly authorized prior to execution. This is a repeat finding.

Criteria: Disbursements made on behalf of other governmental organizations must be properly authorized by the Board of Aldermen as intergovernmental loans prior to disbursement.

Cause: The City has taken on the internal accounting responsibilities of the Rutland Redevelopment Authority without establishing policies and procedures for the execution of activity.

Effect: The City disburses monies on behalf of the Rutland Redevelopment Authority without authorization.

Recommendation: The City should develop controls to ensure that all activity is properly authorized prior to execution.

Management Response: An additional warrant process was instituted in FY2011 for General Fund expenditures under the management of RRA to be approved by the Board of Finance with a recommendation by RRA. RRA payroll and benefits are no longer connected to the City of Rutland as of 1/1/11. This matter is considered resolved.

10 – 06: Inadequate Controls over Capital Assets

Condition: Incomplete historical capital assets records and inadequate tracking of current capital asset activity. Federally-funded capital assets are not tagged/identified as acquired with federal grant awards.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

B. Findings – Financial Statements Audit (continued)

Material Weaknesses (continued)

Criteria: Generally accepted accounting principles require organizations to track, record, and report the acquisition and disposal of all capital assets. Federal grant agencies require local government to identify all federally-funded capital assets, with clear identification noting the source of funding.

Cause: The City has not established procedures to accurately record and report capital asset activity. Also, the City has not established procedures to identify all assets that have been acquired through federal awards.

Effect: Misreported expenditures and capital asset acquisitions.

Recommendation: The City should establish procedures for the monitoring and reporting of capital asset acquisition and disposal of both general government capital assets and proprietary capital assets.

Management Response: The City has completed an updated list of capital assets as of June 30, 2010 which will be converted to a sub-ledger of the accounting system in FY2011. New procedures recommended to management for timely grant reporting may also help the City recognize assets purchased with grant funds.

10 – 07: Financial Activity Cut-Off

Condition: Incomplete recording of financial activity to the correct fiscal period.

Criteria: Generally accepted accounting principles require organizations to recognize revenues and expenses in consonance with their established bases of accounting.

Cause: The City has not established procedures to ensure all financial activity is recorded and reported in the correct fiscal period.

Effect: Inaccurate reporting of revenues and expenditures by fiscal year affect both fiscal years represented and federal expenditures for reporting required by OMB Circular A-133.

Recommendation: The City should establish procedures that require the identification of activity by fiscal year by developing cut-off procedures that support the appropriate basis of accounting.

Management Response: The Treasurer's Office will recommend a policy based on best practices to provide the City with a basis for legislation to support proper and consistent recording of activity by Departments for year end, including grant activity and capital purchases.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

B. Findings – Financial Statements Audit (continued)

Significant Deficiencies

10 – 08: Fund Balance Monitoring

Condition: Delayed recognition of fund balance use and lack of a policy regarding the prioritized use of fund balances. This is a repeat finding.

Criteria: The City is required to identify restricted and designated fund balances throughout the fiscal year to ensure accurate compliance with established requirements.

Cause: The City has not established procedures to monitor fund balance for all funds throughout the fiscal year.

Effect: Fund balance use cannot be monitored timely and current restrictions balance are not maintained throughout the fiscal year.

Recommendation: The City should establish procedures for monitoring and reporting all restricted and designated fund balances periodically throughout the fiscal year.

Management Response: The Treasurer will recommend a policy for fund balance designations and monitoring to be approved by the City to comply with implementation of GASB 54.

10 – 09: Inventory Balances

Condition: Inventory balances are misstated throughout the fiscal year.

Criteria: Generally accepted accounting principles require organizations to regularly record and report changes in financial resources to include inventory items.

Cause: The City does not regularly conduct a physical inventory of all consumable inventory items and does not update the balance sheet to reflect changes in inventory values.

Effect: Inaccurate balance sheet amounts are reported, misstating revenue and expenditures.

Recommendation: The City should establish procedures that require regular physical inventory counts and record adjustments to the General Ledger.

Management Response: The City must develop a policy regarding the reporting of inventory levels to the Treasurer's Office for regular counts and adjustments throughout the year.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

B. Findings – Financial Statements Audit (continued)

Significant Deficiencies: (continued)

10 – 10: Safeguarding of City Assets

Condition: Physical assets are left unlocked and unattended.

Criteria: Prudent management dictates that the City establish reasonable controls over assets.

Cause: The City has not adequately established requirements that all Departments maintain security over assets under their control.

Effect: Assets belonging to the City are subject to unnecessary risk of theft or misuse.

Recommendation: The City should establish procedures that require all Departments to maintain controls over physical assets under their control.

Management Response: The City must develop a policy for departments to better safeguard City assets.

10 – 11: Cash Ownership

Condition: Lack of clear ownership of cash assets.

Criteria: Generally accepted accounting principles require organizations to identify all financial assets and liabilities belonging to the governmental entity.

Cause: The City has not established clear ownership of all cash assets belonging to the City.

Effect: Misstated asset ownership affects management's ability to make timely and accurate financial decisions.

Recommendation: The City should establish procedures to clearly identify cash ownership between related governmental entities.

Management Response: The Treasurer's Office has resolved the issue of cash ownership between the City and the RRA regarding small amounts remaining in deposit accounts. This matter is considered resolved.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

B. Findings – Financial Statements Audit (continued)

Significant Deficiencies: (continued)

10 – 12: Grant Management

Condition: The City has not established adequate procedures for monitoring, recording, and reporting grant revenue and expenditures throughout the fiscal year, to include internal City grants as well as grants managed by the Rutland Redevelopment Authority on behalf of the City. This is a repeat finding.

Criteria: Government funding sources require that local governmental organizations record and report financial activity timely and accurately to allow management effective monitoring and statutory compliance.

Cause: The City has not established adequate procedures to collect, record, and monitor grant activity and compliance with statutory requirements.

Effect: Noncompliance with statutory requirements of grant expenditures.

Recommendation: The City should establish procedures that centralize and standardize monitoring, recording, and reporting of grant expenditures.

Management Response: The Treasurer's Office has requested policy development regarding grant reporting requirements for City departments. Departments must report grant activity upon approval, revenue or expense activity, or closure with original supporting documentation on a timely basis to the Treasurer's Office for the City to prepare accurate reports for the Single Audit and for general financial reporting.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

C. Findings – Major Federal Award Program Audit

10 – 06: Inadequate Controls over Capital Assets

Condition: Incomplete historical capital assets records and inadequate tracking of current capital asset activity. Federally-funded capital assets are not tagged/identified as acquired with federal grant awards.

Criteria: Generally accepted accounting principles require organizations to track, record, and report the acquisition and disposal of all capital assets. Federal grant agencies require local government to identify all federally-funded capital assets, with clear identification noting the source of funding.

Cause: The City has not established procedures to accurately record and report capital asset activity. Also, the City has not established procedures to identify all assets that have been acquired through federal awards.

Effect: Misreported expenditures and capital asset acquisitions.

Recommendation: The City should establish procedures for the monitoring and reporting of capital asset acquisition and disposal of both general government capital assets and proprietary capital assets.

Management Response: The City has completed an updated list of capital assets as of June 30, 2010 which will be converted to a sub-ledger of the accounting system in FY2011. New procedures recommended to management for timely grant reporting may also help the City recognize assets purchased with grant funds.

10 – 12: Grant Management

Condition: The City has not established adequate procedures for monitoring, recording, and reporting grant revenue and expenditures throughout the fiscal year to include internal City grants as well as grants managed by the Rutland Redevelopment Authority on behalf of the City. This is a repeat finding.

Criteria: Government funding sources require that local governmental organizations record and report financial activity timely and accurately to allow management effective monitoring and statutory compliance.

Cause: The City has not established adequate procedures to collect, record and monitor grant activity and compliance with statutory requirements.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

C. Findings – Major Federal Award Program Audit (continued)

Questioned Costs: The monetary effect of this finding is not readily determinable.

Effect: Noncompliance with statutory requirements of grant expenditures.

Recommendation: The City should establish procedures that centralize and standardize monitoring, recording and reporting of grant expenditures.

Management Response: The Treasurer's Office has requested policy development regarding grant reporting requirements for City departments. Departments must report grant activity upon approval, revenue or expense activity, or closure with original supporting documentation on a timely basis to the Treasurer's Office for the City to prepare accurate reports for the Single Audit and for general financial reporting.

10 – 13: Cash Management

Condition: The City has not established adequate controls over cash management drawdowns from federal sources. (CFDA # 16.710, Community Oriented Policing Services, Federal award number 2009-CK-WX-0142, U. S. Department of Justice, pass-through the State of Vermont.)

Criteria: Governments are required to incur costs prior to requesting a drawdown of federal funds from cost-reimbursement grants.

Cause: The City allows Department Heads to independently manage federal grant activity but has not established adequate procedures to provide training, supervision, or monitoring of this activity.

Questioned Costs: The City made a drawdown of federal expenditures of \$100,794, approximately seven weeks prior to payment to the vendor, based on the vendor invoice amount.

Effect: Noncompliance with statutory requirements of grant expenditures.

Recommendation: The City should establish procedures that centralize and standardize monitoring, recording, and reporting of grant expenditures.

Management Response: Treasurer will review single audit grant compliance criteria with City departments.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

C. Findings – Major Federal Award Program Audit (continued)

10 – 14: Subrecipient Monitoring

Condition: The City has not established adequate procedures for conducting subrecipient monitoring of federal grants that are passed through the City to other grant recipients. (CFDA # 14.228, Community Development Block Grant, Federal award number N/A, U. S. Department of Housing & Urban Development, pass-through the State of Vermont.)

Criteria: Governments receiving federal funding that pass this funding through to grant recipients are required to establish monitoring of these subrecipients to ensure that compliance requirements are understood and followed.

Cause: The City has not established adequate procedures to conduct subrecipient monitoring.

Questioned Costs: The City did not perform subrecipient monitoring activities for the entire grant passed to PACE in the amount of \$30,000.

Effect: Noncompliance with statutory requirements of grant activity monitoring.

Recommendation: The City should establish procedures that centralize and standardize monitoring, recording, and reporting of grant expenditures of subrecipients.

Management Response: The City will request financial statements from all entities receiving pass-through funding, and/or require the RRA complete subrecipient monitoring requirements as part of the City contract.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

A. Findings – Financial Statement Audit

09 – 01: Internal Control Risk Assessment

Condition: The City has not conducted a complete internal risk assessment, necessary to identify weaknesses in internal control that should be designed to prevent or detect material misstatement due to error or malfeasance.

Recommendation: The City should conduct a government-wide review of fraud and internal control risk that assesses these risks and develops a plan to mitigate these risks.

Management Response: Management agrees that a city-wide risk assessment should be accomplished. Management believes it should be done by an independent accounting firm, distinct from the independent auditor.

Status: This finding remains unresolved.

09 – 02: Pooled Cash Accounts – The City maintains a pooled-cash account to collect and disburse cash for the General Fund and Proprietary Funds of the City. However, the City does not comply with its own ordinances requiring the Treasurer to present interfund loan activity to the Board of Aldermen on a monthly basis. This is a repeat finding.

Recommendation: The City should develop procedures that provide detail to the Board of Aldermen in compliance with City ordinance regarding the interfund receivables and payables that result from the operations of the pooled-cash account and the City should develop procedures for resolving outstanding balances on a regular basis.

Management Response: The Treasurer's Office began reporting pooled cash allocation on a monthly basis to the Board of Aldermen in June 2009 with monthly budget-to-actual results and balance sheets for each major fund thus meeting the requirements of the ordinance. This issue is considered resolved.

Status: This finding has been resolved.

09 – 03: Basis of Accounting – The City does not maintain its funds on a consistent basis of accounting. Some governmental funds recognize full accrual accounting, some recognize the cash basis of accounting, and the remaining funds use a mixed basis of accounting. This is a repeat finding.

Recommendation: Establish a clear basis of accounting for each type of fund within the City's Chart of Accounts and develop procedures to ensure consistent recording and reporting in consonance with the fund's basis of accounting.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

A. Findings – Financial Statement Audit (continued)

Management Response: Management intends to make a decision regarding each fund as to which basis of accounting will be used. This will be supported by changes, where needed, in the accounting software to fully support the basis of accounting chosen by the end of the next fiscal year.

Status: This finding has been resolved.

09 – 04: Grant Management – The City has not established adequate procedures for monitoring, recording and reporting grant revenue and expenditures throughout the fiscal year to include internal City grants as well as grants managed by the Rutland Redevelopment Authority on behalf of the City. This is a repeat finding.

Recommendation: Conduct training that instructs all City employees regarding the requirement to monitor and document compliance with grant documents and establish procedures that allow for consolidated grant management throughout the year.

Management Response: The City will continue to improve fund classifications to better facilitate accurate recording and reporting of grant revenues and expenditures, including grants managed for the City by the Rutland Redevelopment Authority. This will also provide greater transparency for departments and for management. Cooperation of all City departments that manage grant funds or grant-funded resources is essential to ensure timely and accurate information is given to the Treasurer’s Office for entry into the general ledger. Compliance with grant requirements is the responsibility of each department.

Status: This finding remains unresolved.

Significant Deficiencies

09 – 05: Fuel Card Use – Fuel cards are distributed and held by the Department of Public Works employees and used without receipts or a tracking mechanism to ensure only authorized use of these cards occurs.

Recommendation: Develop the requirement that all employees remit receipts and the Department establish a tracking system to monitor fuel use.

Management Response: The City will establish controls and policy regarding the use of fuel cards.

Status: This finding remains unresolved.

09 – 06: Revenue Recognition – The City does not require receipts be issued for all sources of miscellaneous revenue collected.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

A. Findings – Financial Statement Audit (continued)

Recommendation: The City should accomplish a risk assessment for all departments and establish controls over the receipt of cash to detect and prevent the possibility of errors and malfeasance from occurring.

Management Response: The City Treasurer's office will assist the recreation department in the implementation of a cash receipts process for miscellaneous revenues, primarily at the Godnick Center.

Status: This finding remains unresolved.

09 – 07: Expense Authorization – The City has not developed procedures to ensure that activity processed on behalf of the Rutland Redevelopment Authority is properly authorized prior to execution.

Recommendation: The City should develop controls to ensure that all activity is properly authorized prior to execution.

Management Response: The City requires the Board of the Rutland Redevelopment Authority to approve warrants for payment of expenses in writing. The financial activity of the Rutland Redevelopment Authority is now recorded in the City's accounting system to eliminate problems associated with information not recorded accurately or timely. This issue is considered resolved.

Status: This finding remains unresolved.