

CITY OF RUTLAND, VERMONT
SINGLE AUDIT
YEAR ENDED JUNE 30, 2009

Corrette & Associates, P. C.

CITY OF RUTLAND, VERMONT
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Aldermen
City of Rutland
Rutland, Vermont

We have audited the financial statements of the governmental activities, 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, 2009, which collectively comprise the City of Rutland, Vermont's basic financial statements and have issued our report thereon dated February 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Rutland, Vermont's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Rutland, Vermont's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Rutland's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Rutland, Vermont's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Rutland, Vermont's financial statements that is more than inconsequential will not be prevented or detected by the City of Rutland, Vermont's internal control. We consider the

deficiencies indicated in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. Finding 09 – 01, 09 – 02, 09 – 03, 09 – 04, 09 – 05, 09 – 06, 09 – 07.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Rutland, Vermont's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that five of the significant deficiencies described in the accompanying schedule are material weaknesses. Finding 09 – 01 through 09 – 05.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rutland, Vermont's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under "Government Auditing Standards."

We also noted other matters that we reported to management of the City of Rutland in a separate letter dated February 11, 2010.

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

This report is intended solely for the information and use of the Board of Alderman, 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 11, 2010
State of Vermont
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Aldermen
City of Rutland

Compliance

We have audited the compliance of the City of Rutland, Vermont, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) "Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2009. 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.

In our opinion, the City of Rutland, Vermont complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings as items 09 – 01, 09 – 03, 09 – 04.

Internal Control Over Compliance

The management of the City of Rutland, Vermont is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 09 – 01, 09 – 03 and 09 – 04 to be significant deficiencies.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider 09 – 01, 09 – 03 and 09 – 04 to be material weaknesses.

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 response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rutland, Vermont, as of and for the year ended June 30, 2009, and have issued our report thereon dated February 11, 2010. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Rutland, Vermont's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended 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 11, 2010
State of Vermont
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**CITY OF RUTLAND, VERMONT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Federal Agency/Program Title</u>	<u>Federal Contract#</u>	<u>Federal CFDA#</u>	<u>Expenditures</u>
U.S. Department of Agriculture Wildlife Habitat Incentive	WHIP-7216446A	10.914	<u>5,324</u>
Total U.S. Department of Agriculture			5,324
U.S. Department of Homeland Security: pass-thru program from Vermont Dept of Public Safety: Fire Airport Training	2006-GE-T6-0014	97.067	<u>21,641</u>
Total U.S. Department of Homeland Security			21,641
U.S. Department of Justice - Direct programs Enforcing Underage Drinking Laws Pgm	2008-AH-FX-0037	16.727	1,521
Byrne Justice Assistance Grant	2006-DJ-BX-0086	16.738	<u>15,338</u>
Total U.S. Department of Justice			16,859
U.S. Department of Transportation pass- through program from the State of VT Agency of Transportation: Highway Planning and Construction		20.205	141,775
Recreational Trails	NRTF-08/04-09/04	20.219	5,156
National Transportation Safety Administration Repeat offenders for DUI	02140-0909-9223	20.608	16,276
Highway Safety Program	02140-0808-2121	20.600	<u>22,690</u>
Total U.S. Department of Transportation			185,897
U.S. Dept of HUD pass-thru program from from Vt Agency of Commerce and Comm. Develop Block Grants: State's Program: Community Development Grant	0181/08MP	14.228	<u>34,267</u>
Total U.S. Department of Housing and Urban Development			34,267
U.S. Environment Protection Agency Water Roof Repair	RF3-146	66.468	<u>577,403</u>
Total U.S. Environmental Protection Agency			577,403
Total expenditures of federal awards			\$ <u>841,391</u>

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, 2009

NOTE 1. Basis of Presentation

A. Single Audit reporting entity – For purposes of complying with the Single Audit Act of 1984, as amended, the City includes all funds and programs that are considered part of the primary governmental unit, as described in the financial statements as of and for the year ended June 30, 2009.

B. Basis of presentation – The information in the accompanying schedule is presented in accordance with the Office of Management and Budget (OMB) Circular A-133.

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 program for 2009 was the U. S. Environmental Protection Agency program Clean Water State Revolving Loan Fund, CFDA 66.468.

C. Basis of accounting – The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the basis of accounting used for reports submitted to grantor agencies. 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.

NOTE 2. Subrecipients

The City of Rutland, Vermont provided no federal awards to subrecipients for the year ended June 30, 2009.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

A. Summary of Auditor's Results

OMB Circular A-133 requires the following summary of auditor's results be included in the Schedule of Findings.

1. The auditor's report expresses a modified opinion on the financial statements of the City of Rutland, Vermont.
2. Seven significant deficiencies disclosed during the audit of the financial statements 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. Five of these are reported as material weaknesses.
3. No 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*, were disclosed during the audit.
4. Three significant deficiencies in internal control of major federal programs disclosed during the audit is reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal programs for the City of Rutland, Vermont expresses an unqualified 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 is the State Drinking Water Revolving Loan fund, CFDA 66.468.
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
FOR THE YEAR ENDED JUNE 30, 2009**

B. 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. This is a repeat finding.

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.

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.

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.

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.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

B. Findings – Financial Statement Audit (continued)

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.

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.

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

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.

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.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

B. Findings – Financial Statement Audit (continued)

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.

C. Findings and questioned costs - major federal award programs

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. This is a repeat finding.

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.

09 – 03: Basis of Accounting – The City maintains funds on inconsistent bases 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.

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.

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 accounting software to fully support the basis of accounting chosen by the end of the next fiscal year.

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.

**CITY OF RUTLAND, VERMONT
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

C. Findings and questioned costs - major federal award programs (continued)

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.

CITY OF RUTLAND, VERMONT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009

A. Audit Findings - Financial Statements:

Certain control deficiencies identified in prior audits have not been fully corrected at June 30, 2009. Audit findings 09-1 through 09-04 were previously reported in the 2008 schedule of findings. The remaining findings are now considered to be resolved.

Material Weaknesses

08 – 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: The City acknowledges that a complete risk assessment is needed on a government-wide basis. The City has worked with Castleton State College to understand what internal control means and develop policies to address this concern. A current project to document procedures in the Treasurer's Office is a start to review procedures against internal control standards to assure mitigation of risk.

Current Status: Remains unresolved.

08 – 02: Balance Sheet Reconciliations – The City has not developed procedures to reconcile balance sheet accounts such as cash, interfund receivables and payables, deferred revenue, accounts receivables, and equity balances, nor does the City have supporting documentation for these accounts.

Recommendation: The City Treasurer should develop regular reconciliations of all balance sheet accounts and maintain supporting documentation for each of these reconciliations.

Management Response: The City did not have an accurate balance sheet in FY 2008 or in the prior year. While reconciliation of bank statements was being done during FY 2008, after adjusting starting balances were established from the FY 2007 audit, problems inherent in the MUNIS accounting system thwarted the City's efforts to reconcile the bank statements to the balance sheet. Conversion of the accounting system to NEMRC has demonstrated in subsequent reconciliation activity to solve this problem and provide supporting documentation. The City has developed forms and procedures to accomplish monthly reconciliation based on the new system. Bank reconciliation after year end has proven exactly against the general ledger balances.

Current Status: This has been partially resolved.

**CITY OF RUTLAND, VERMONT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009**

B. Findings – Financial Statement Audit

Material Weaknesses: (continued)

08 – 03: Pooled Cash Accounts – The City has not developed procedures to allocate cash to appropriate funds when cash is pooled for those funds into a single banking account. This creates effective operating transfers from one fund to another when expenditures are made from the pooled cash account without consideration of the availability of cash in that account attributable to each fund.

Recommendation: The City should develop a tracking system, preferably within its general ledger system, to allocate cash in a pooled cash account between the funds that possess ownership over that cash.

Management Response: The City will strive to develop a tracking system to separate cash from the general fund from proprietary funds. In our conversations with NEMRC, our software supplier, this appears possible due to way NEMRC handles cash receipts and upload of data to the modules representing tax, utility bill and accounts receivable data. We will work with NEMRC to develop a procedure to properly allocate cash with a process at month-end.

Current Status: Procedures were implemented to comply with established requirements near the end of the fiscal year June 30, 2009.

08 – 04: Basis of Accounting – The City maintains funds on inconsistent bases 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.

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.

Management Response: The City had inconsistencies in accounting representation in MUNIS. The intention of the City is to avoid a "mixed" basis of accounting and reflect full accrual for proprietary funds and modified accrual for the general fund in FY 09.

Changes to be implemented within the chart of accounts to be consistent with fund definitions consistent with government accounting standards (GAAFR, or GFOA Blue Book) will help to provide clarity for the City in this regard.

Current Status: This has not been resolved.

**CITY OF RUTLAND, VERMONT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009**

B. Findings – Financial Statement Audit (continued)

08 – 05: Grant Management – The City has not established adequate procedures for monitoring, recording and reporting grant revenue and expenditures throughout the fiscal year.

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 did not have adequate procedures for monitoring, reporting or recording grant revenue primarily due to a disorganized chart of accounts. A clean up of the chart of accounts occurred in the conversion to a new accounting system and further refinement during FY 2009 to define funds will provide better clarity for the board and the departments. This will be an area of focus and process improvement for the remainder of 2009.

Current Status: This has not been resolved.

08 – 06: Revenue recording – The City has not developed adequate procedures for accurately recognizing revenue by source. Approximately \$1,332,814 of grant and reimbursement activity was posted to miscellaneous revenue.

Recommendation: Develop procedures that require management to identify revenue by source prior to recording that revenue in the general ledger system of accounts.

Management Response: Miscellaneous revenue accounts are a legacy problem in MUNIS as the City did not correctly identify separate grant sources. More definition will be provided to grant revenues and other non-tax or fee revenues in the modified chart of accounts in NEMRC. Funds will be established according to accounting standards with approval by the Board of Finance.

Current Status: This has been largely resolved.

08 – 07: General Ledger System and Fund Accounting – The City has failed to accurately identify all fund types and individual funds in compliance with government accounting standards and funds as established by legal requirements.

Recommendation: Conduct a thorough review of all legal and operational requirements for establishing funds throughout the government. Modify the general ledger chart of accounts to reflect those identified funds and establish procedures that allow for recording activity in the appropriate fund.

Management Response: Miscellaneous revenue accounts are a legacy problem in MUNIS as the City did not correctly identify separate grant sources. More definition will be provided to grant

**CITY OF RUTLAND, VERMONT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009**

B. Findings – Financial Statement Audit (continued)

revenues and other non-tax or fee revenues in the modified chart of accounts in NEMRC. Funds will be established according to government accounting standards with approval by the Board of Finance.

Current Status: This has been resolved.

Significant Deficiencies

08 – 08: Reimbursement recognition – The City independently recognizes expenditures on behalf of employees as expenses, and the reimbursement of those disbursements from employees as revenues, with the result that both are overstated in governmental funds.

Recommendation: Monitor those expenditures made by the City on behalf of employees and ensure that employees provide these reimbursements timely to the City and that these expenditures and reimbursements are netted against one another to avoid overstatement of either revenues or expenditures.

Management Response: The City recognized certain reimbursements as revenue based on advice previously provided. The City has instituted this change in FY 2009 and made adjustments to reflect a policy to consider these reimbursements as a reduction of expense to avoid overstating revenue and expenses.

Current Status: This has been resolved.

08 – 09: Segregation of duties – The City has established an internal control of segregation of duties over expenditures by requiring three independent passwords on its check creation software; however, single individuals possess and enter these passwords undermining the intent of the internal control.

Recommendation: Require that system passwords not be shared with others and that individuals enter their own passwords into a check control system.

Management Response: The password system for check generation has been re-configured to require the City Clerk utilize a separate password. The Treasurer will continue to apply the two signatures of the majority of the Board of Finance based upon the signatures on the warrant.

Current Status: This has been resolved.

**CITY OF RUTLAND, VERMONT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009**

B. Findings – Financial Statement Audit (continued)

08 – 10: Timely Recording of Financial Activity – The City has not developed procedures to ensure that all financial activity for all funds is recognized and recorded in a timely manner.

Recommendation: Develop the requirement that all financial activity is posted timely to the general ledger accounting system by fund.

Management Response: The City’s conversion to NEMRC has vastly improved management’s ability to record financial activity in a timely manner as activity on the several sub ledgers are batched and posted daily to the general ledger. The Treasurer’s Office has developed a series of standardized adjustment forms which facilitate the timely and accurate recording of activity and adjustments. The Treasurer’s Office will continue to develop standard procedures to identify and record all financial activity as well as monthly reconciliation procedures to ensure full and accurate accounting for all activity.

Current Status: This has been resolved.

08 – 11: Monitoring by Management – The Board of Aldermen is responsible for oversight of the financial assets, liabilities and activities of the City. The Board is presented only with cash and debt balances and with current budget to actual revenues and expenditures.

Recommendation: Management of the City should be presented with a complete set of financial statements at each review of the City’s finances. This should include a complete balance sheet as well as budget-to-actual results from operations.

Management Response: The City agrees that the management should have a full set of financials—including budget to actual results and balance sheet. By the end of FY 2009, after audit adjustments have been entered for FY 2008 and the balance sheet established in the new accounting system, this will be provided to the Board and management of the City on a quarterly basis. This has been a goal of the Treasurer’s office since 2007 but system configuration in MUNIS and data issues relating the previous accounting system negated that goal.

Current Status: Procedures have been put in place to resolve this deficiency.

C. Findings and questioned costs - major federal award programs

08 – 03: Pooled Cash Accounts – The City has not developed procedures to allocate cash to appropriate funds when cash is pooled for those funds into a single banking account. This creates effective operating transfers from one fund to another when expenditures are made from the pooled cash account without consideration of the availability of cash in that account attributable to each fund.

**CITY OF RUTLAND, VERMONT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009**

C. Findings and questioned costs - major federal award programs (continued)

Recommendation: The City should develop a tracking system, preferably within its general ledger system, to allocate cash in a pooled cash account between the funds that possess ownership over that cash.

Management Response: The City will strive to develop a tracking system to separate cash from the general fund from proprietary funds. In our conversations with NEMRC, our software supplier, this appears possible due to way NEMRC handles cash receipts and upload of data to the modules representing tax, utility bill and accounts receivable data. We will work with NEMRC to develop a procedure to properly allocate cash with a process at month-end.

Current Status: Procedures were implemented to comply with established requirements near the end of the fiscal year June 30, 2009.

08 – 04: Basis of Accounting – The City maintains funds on inconsistent bases 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.

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.

Management Response: The City had inconsistencies in accounting representation in MUNIS. The intention of the City is to avoid a “mixed” basis of accounting and reflect full accrual for proprietary funds and modified accrual for the general fund in FY 09.

Current Status: This has not been resolved.

08 – 05: Grant Management – The City has not established adequate procedures for monitoring, recording and reporting grant revenue and expenditures throughout the fiscal year.

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 did not have adequate procedures for monitoring, reporting or recording grant revenue primarily due to a disorganized chart of accounts. A clean up of the chart of accounts occurred in the conversion to a new accounting system and further refinement during FY 2009 to define funds will provide better clarity for the board and the departments. This will be an area of focus and process improvement for the remainder of 2009.

Current Status: This has not been resolved.

CITY OF RUTLAND, VERMONT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009

C. Findings and questioned costs - major federal award programs (continued)

08 – 06: Revenue recording – The City has not developed adequate procedures for accurately recognizing revenue by source. Approximately \$1,332,814 of grant and reimbursement activity was posted to miscellaneous revenue.

Recommendation: Develop procedures that require management to identify revenue by source prior to recording that revenue in the general ledger system of accounts.

Management Response: Miscellaneous revenue accounts are a legacy problem in MUNIS as the City did not correctly identify separate grant sources. More definition will be provided to grant revenues and other non-tax or fee revenues in the modified chart of accounts in NEMRC. Funds will be established according to accounting standards with approval by the Board of Finance.

Current Status: This has been largely resolved.

08 – 11: Monitoring by Management – The Board of Aldermen is responsible for oversight of the financial assets, liabilities and activities of the City. The Board is presented only with cash and debt balances and with current budget to actual revenues and expenditures.

Recommendation: Management of the City should be presented with a complete set of financial statements at each review of the City's finances. This should include a complete balance sheet as well as budget-to-actual results from operations.

Management Response: The City agrees that the management should have a full set of financials—including budget to actual results and a balance sheet. By the last quarter of FY 2009, after audit adjustments have been entered for FY 2008 and the balance sheet established in the new accounting system, this will be provided to the Board and management of the City on a quarterly basis. This has been a goal of the Treasurer's office since 2007 but system configuration in MUNIS and data issues relating the previous accounting system negated that goal.

Current Status: Procedures have been put in place to resolve this deficiency.