

TOWN OF ST. JOHNSBURY, VERMONT
AUDITOR'S REPORT
IN ACCORDANCE WITH OMB CIRCULAR A-133
DECEMBER 31, 2013

TOWN OF ST. JOHNSBURY, VERMONT
TABLE OF CONTENTS
DECEMBER 31, 2013

	<u>Page</u>
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	1-2
Independent Auditor's 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	3-4
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	7-15



Batchelder Associates, PC

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 Selectmen
Town of St. Johnsbury, Vermont
St. Johnsbury, Vermont

Compliance

We have audited the Town of St. Johnsbury, Vermont's ("Town") 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 Town's major federal programs for the year ended December 31, 2013. The Town'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 Town's management. Our responsibility is to express an opinion on the Town'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 *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 Town'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 Town's compliance with those requirements.

As described in items 2014-02, 2014-03, 2014-04 and 2014-05 in the accompanying schedule of findings and questioned costs, the Town did not comply with requirements regarding Allowable Costs and Cost Principles, Cash Management and Reporting that are applicable to its USDA, Federal Highway Administration and Homeland Security Major Programs. Compliance with such requirements is necessary, in our opinion, for the Town to comply with the requirements applicable to those programs. In our opinion, except for the noncompliance described in the preceding paragraph, the Town complied, 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 December 31, 2013.

Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town'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 Town's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have

Bonnie K. Batchelder • Certified Public Accountant

been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 item 2014-01, 2014-02, 2014-03, 2014-04 and 2014-05 to be a material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider all findings to be material weaknesses and not significant deficiencies.

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

This report is intended solely for the information and use of management, Board of Selectmen, others within the entity, 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.

Batchelder Associates, P.C.

Batchelder Associates, PC
Barre, Vermont
March 28, 2014
Vermont License # 945



Batchelder Associates, PC

INDEPENDENT AUDITOR'S 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 Selectmen
Town of St. Johnsbury, Vermont
St. Johnsbury, Vermont

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of St. Johnsbury, Vermont ("Town"), as of and for the year ended December 31, 2013, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 28, 2014. 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 Town'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 Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses; 2014-01, 2014-02, 2014-03, 2014-04 and 2014-05. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider all items to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2014-02, 2014-03, 2014-04 and 2014-05.

We noted certain other matters that we reported to management of the Town in a separate letter dated July 1, 2014. The Town'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 Town's response and, accordingly, we express no opinion on it.

Bonnie K. Batchelder • Certified Public Accountant

This report is intended solely for the information and use of management, Board of Selectmen, others within the entity, and 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.

Batchelder Associates, P.C.

Batchelder Associates, PC

Barre, Vermont

March 28, 2014

Vermont License # 945

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

<u>Federal Agency/ Program Title</u>	<u>Grant Number</u>	<u>Award Amount</u>	<u>CFDA Number</u>	<u>Federal Amount Expended</u>
<u>U.S Department of Agriculture</u>				
ARRA-Water & Waste Disposal Systems for				
Rural Communities Grants and Loans	VT-00-16	\$ 9,000,000	10.781	<u>\$ 2,794,091</u>
<u>U.S. Department of Homeland Security</u>				
Public Safety				
State Homeland Security Grant	2008-GE-T8-0045	\$ 8,777	97.067	<u>\$ 3,147</u>
<u>Federal Emergency Management Agency</u>				
Disaster Grants	FEMA 4001-DR-VT		97.036	\$ 64,988
Assistance to Firefighters	EMW-2012-FV-03990	\$ 475,000	97.044	\$ 475,000
Total Federal Emergency Management Agency				<u>\$ 539,988</u>
<u>Department of Environmental Conservation</u>				
Pollution Control Revolving Fund	06140-RF1-153	\$ 46,670	66.458	\$ 25,570
Revolving Loan Fund	RF1-168	\$ 5,066,958	66.458	\$ 1,957,386
Total Department of Environmental Conservation				<u>\$ 1,982,956</u>
<u>U.S. Department of Transportation</u>				
Pass-through from the State of VT Agency of Transportation:				
Highway Planning and Construction				
St. Johnsbury STP Bike (10)S	08126-CA0137	\$ 2,070,000	20.205	\$ 81,593
Railroad St. Enhancement	08126-25EH01	\$ 110,400	20.205	\$ 2,752
National Highway Traffic Safety	02140-1213-2134	\$ 5,000	20.600	\$ 4,875
National Highway Traffic Safety	02140-1213-2134	\$ 8,500	20.600	\$ 8,500
Total US. Department of Transportation				<u>\$ 97,720</u>
<u>U.S. Environmental Protection Agency</u>				
Brownfields Assessment and Cleanup				
Cooperative Agreements	BF-96133401-0	\$ 200,000	66.818	<u>\$ 148,476</u>
Total Expenditures of Federal Grants				<u>\$ 5,566,378</u>

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

NOTE I. Single Audit Reporting Entity

For the purposes of the Schedule of Federal Awards, federal awards include all grants and contracts entered into directly between the Town of St. Johnsbury, Vermont ("Town") and agencies and departments of the federal government and pass-through agencies. The awards are classified into major program categories in accordance with the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE II. Summary of Significant Accounting Policies

A. Basis of presentation

The accompanying Schedule is 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 Town 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 Non-major Programs: OMB Circular A-133 establishes criteria for determining major programs and selecting those federal programs to be tested for compliance with program requirements. The major programs selected and tested for the Town for the year ended December 31, 2013 were:

Federal Agency/Department	Program	CFDA
USDA	Water & Waste Disposal Systems for Rural Communities- American Recovery and Reinvestment Act	10.781
Dept. of Environmental Conservation	Revolving Loan Fund	66.458
Homeland Security	FEMA – Disaster Recovery	97.036 97.044

B. Basis of accounting

The Town receives federal funds under various grant programs and records this activity in the proprietary and governmental funds using the basis of accounting of the reporting fund. The Town uses full accrual accounting for its proprietary fund and the modified 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 Town. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Amounts reported in the accompanying Schedule agree in all material respects with the amounts reported in the related annual financial statements.

C. Sub-recipients

The Town provided no federal awards to sub-recipients for the year ended December 31, 2013.

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

A. Summary of the Audit Results

1. Type of report on the financial statements: unqualified opinion.
2. Deficiencies were reported during the audit of the financial statements considered material weaknesses.
3. Instances of noncompliance material to the financial statements were disclosed during the audit.
4. Deficiencies relating to the audit of the major federal programs are reported in the *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*.
 - a. Material weaknesses identified.
 - b. Significant deficiencies identified that are not considered to be material weaknesses: none.
5. Type of report on compliance for major programs: unqualified opinion.
6. Audit findings reported.
7. The programs tested as major programs are the Water & Waste Disposal Systems for Rural Communities – American Recovery and Reinvestment Act, CFDA 10.781, Revolving Loan Fund, CFDA 66.458, and FEMA Disaster Recovery, CFDA 97.036 and 97.044.
8. Dollar threshold to distinguish between type A and type B programs: \$300,000.
9. The auditee is a high risk auditee.

B. Findings - Financial Statement Audit

2014-01. Notes Receivable Monitoring

Condition: The Town does not adequately value or report all long-term notes receivable.

Criteria: Generally accepted accounting principles require organizations to record and report all financial assets at present value of long-term notes receivable.

Cause: The Town has not established procedures to ensure accuracy and monitoring of the collectability and value of long-term notes receivable.

Effect: Overstated assets for government-wide net assets on the Town's financial statements.

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

Management response: The Town recognizes that it does not desire to be in the lending business. The intention of the Town is to transfer the Jay-Lynn Revolving Loan Fund and its management to the Northern Community Investment Corporation to be carried out under its original purpose. Presently, the Town's Long Term Notes Receivables shown in the 2013 Audit Report present a minimal realizable amount. This amount is reflected in the financial statements. As part of the transferal process the Town will work in conjunction with the Northern Community Investment Corporation in identifying those receivables that are still collectable.

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

B. Findings - Financial Statement Audit (continued)

Material Weaknesses (continued)

2014-02. Approving Grant Related Expenses

Condition: Invoices were approved and paid without required backup of direct travel or reimbursable expenses.

Criteria: Prudent grant management requires a reasonable approval process of invoices prior to payment. This approval includes review and accuracy of expenditures included in invoices.

Cause: The Town Manager and Board of Selectman did not have staff qualified to be approving or reviewing invoices prior to payment.

Effect: Invoices as they related to grants were paid in excess of allowable amounts, including markup's on sub-contractor travel costs, overbilling of labor costs and excessive overtime costs to time and material costs versus lump sum costs portions of the contracts.

Recommendation: The Town should implement a grant reporting process which includes approval criteria, a strong understanding of the granting agencies requirements and knowledge of allowable costs to the individual grants being monitored and received.

Management Response: In 2014 the Town created the new position of Assistant Town Manager. A responsibility of the new position is to monitor and manage the grants of the Town. The Assistant Town Manager has experience with granting agencies and their requirements and is presently managing all new grants while reviewing the older ones.

2014-03. Monitoring Grant Related Expenses

Condition: Invoices were approved and paid without regard to vendor's contract or oversight of contract terms.

Criteria: Prudent grant management requires a reasonable approval process of invoices prior to payment, as well as a strong understanding of vendor charges and the financial relations to the contract.

Cause: The Town Manager paying a premium rate to vendor due to the nature of a contract which included both time and material and lump-sum portions.

Effect: All overtime labor costs were billed to time and material portion of contract versus lump-sum portion contract. This created an excessive increase to the time and material portion of contract while also creating an excessive hourly rate under the lump-sum portion of the contract.

Recommendation: The Town should implement a contract with vendors that do not include in both types of contracts one fee. Town should obtain a higher level of review and understanding of vendor invoicing to obtain a reasonable cost expectation and reasonable use of grantor's funds.

Management Response: In 2014 the Town created the new position of Assistant Town Manager. A responsibility of the new position is to monitor and manage the grants of the Town. The Assistant Town Manager has experience with granting agencies and their requirements and is presently managing all new grants while reviewing the older ones

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

B. Findings - Financial Statement Audit (continued)

Material Weaknesses (continued)

2014-04. Monitoring Grant Related Expenses

Condition: Overtime and regular hours paid to employees was less than invoiced to grants.

Criteria: Prudent grant management requires a reasonable approval process of invoices preparation prior to submittal which includes identifying allowable costs.

Cause: Invoicing is completed by the Chief of Police and Fire Chief versus the finance department and do not have a full understanding of invoicing and grant requirements.

Effect: Invoicing to grants was overstated.

Recommendation: The Town should implement a process for accumulating costs and comparing actual costs with invoicing prior to submission to granting agencies.

Management Response: The grants are being administered by the Assistant Town Manager in conjunction with the Town Clerk. Department Heads are no longer involved in the grant management process.

2014-05. Monitoring Grant Related Revenue

Condition: Grant fund received and not used directly for grant purpose – Special circumstance.

Criteria: Prudent grant management requires a reasonable process of disbursing grant funds in a timely and appropriate process.

Cause: FEMA granted funds in the amount of \$475,000 to purchase a fire truck. Prior to the grant award, the Town entered into a lease agreement to finance the fire truck and other equipment. When the FEMA funds were received, the funds were deposited versus repayment of the lease. The Town did attempt contacting leasing company at a future date to have an early payment with the FEMA proceeds, but was unsuccessful. The funds were set aside for payment early in 2014 to use the funds as timely as the lease agreement would allow.

Effect: Grant funds were not expended within a timely period of receiving funds or used for direct purpose upon receipts.

Recommendation: The Town should implement a process for receiving and disbursing grant funds within the grants timeline of use and for the direct purpose of intent.

Management Response: The Assistant Town Manager and Finance Officer have implemented processes to prevent this from occurring in the future. The Assistant Town Manager will have oversight and understanding of the individual Town grants. The Assistant Town Manager will work in cooperation with the Finance Officer and Town Treasurer to ensure grant funds are dispersed for the proper items and within the guidelines set forth by the grant.

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

A. Summary of the Audit Results

1. Type of report on the financial statements: unqualified opinion.
2. Significant deficiencies were reported during the audit of the financial statements considered (material weaknesses).
3. Instances of noncompliance material to the financial statements were disclosed during the audit.
4. Deficiencies relating to the audit of the major federal programs are reported in the *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*.
 - a. Material weaknesses identified.
 - b. Significant deficiencies identified that are not considered to be material weaknesses: none.
5. Type of report on compliance for major programs: unqualified opinion.
6. Audit findings reported.
7. The programs tested as major programs are the Water & Waste Disposal Systems for Rural Communities – American Recovery and Reinvestment Act, CFDA 10.781, Revolving Loan Fund, CFDA 66.458, and FEMA Disaster Recovery, CFDA 97.036 and 97.044.
8. Dollar threshold to distinguish between type A and type B programs: \$300,000.
9. The auditee is a high risk auditee.

B. Findings - Financial Statement Audit

The following findings are required to be reported in accordance with OMB Circular A-133 and are reported in the accompanying schedule.

Material Weaknesses

2013-01. Financial Management

Condition: The Town has not established an adequate procedure to ensure authorized activity occurs regarding designations and/or reservations of fund balances.

Criteria: Generally accepted accounting principles require organizations to establish financial management procedures to ensure all financial activity authorized by the governing body occurs.

Cause: The basis of accounting used by management and governance is not fully understood by all personnel in decision making authority.

Effect: Activity, such as designations of fund balance, authorized by the Select Board is not consistently accomplished.

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

B. Findings - Financial Statement Audit (continued)

Material Weaknesses (continued)

2013-01. Financial Management (continued)

Recommendation: The Town should establish procedures to ensure that authorized activity is accomplished or that a change in the Town's plan is recorded, if circumstances exist requiring changes to an authorized plan.

Management response: The Town Charter states that "the Selectboard may annually reserve any surplus in the essential budget, not to exceed five percent (5%) of the budget, for the purpose of establishing an undesignated reserve fund." The Town will establish the practice that such designations are voted on by a majority of the Selectboard at a properly warned meeting and reflected in the minutes. The Finance Officer will then be responsible for ensuring that the movements of designated/reserve funds are reflected in the financial statements.

2013-02. Notes Receivable Monitoring

Condition: The Town does not adequately value or report all long-term notes receivable.

Criteria: Generally accepted accounting principles require organizations to record and report all financial assets at present value of long-term notes receivable.

Cause: The Town has not established procedures to ensure accuracy and monitoring of the collectability and value of long-term notes receivable.

Effect: Overstated assets for government-wide net assets on the Town's financial statements.

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

Management response: The Town recognizes that it does not desire to be in the lending business. The intention of the Town is to transfer the Jay-Lynn Revolving Loan Fund and its management to the Northern Community Investment Corporation to be carried out under its original purpose. Presently, the Town's Long Term Notes Receivables shown in the 2013 Audit Report present a minimal realizable amount. This amount is reflected in the financial statements. As part of the transferal process the Town will work in conjunction with the Northern Community Investment Corporation in identifying those receivables that are still collectable.

2013-03. Monitoring Financial Activity

Condition: The Town has not adequately developed procedures to ensure that governance and management can effectively monitor financial activity.

Criteria: Prudent management requires municipal governments to establish procedures that allow effective and timely decision making based on actual financial activity.

Cause: The Town has not established procedures to monitor balance sheet account balances and has not developed procedures to evaluate the amount of fund balance available for designation.

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

B. Findings - Financial Statement Audit (continued)

Material Weaknesses (continued)

2013-03. Monitoring Financial Activity (continued)

Effect: The financial statements are inaccurate during year from which proper controls cannot be maintained.

Recommendation: The Town should establish consistent procedures to monitor the status and value of all assets and liabilities and link the timing of decision making to these values.

Management Response: In May of 2013, the Town hired a new Financial Officer. The new Financial Officer recognizes the need to have properly adjusted accounts on a monthly basis. The Financial Officer will work to formulate accounting policies and procedures with the objective of providing accurate financial statements monthly.

2013-04. General Journal Entries

Condition: General Journal entries are used in excess and are not consistently accompanied by supporting documentation.

Criteria: Generally accepted accounting principles require that organizations develop procedures that allow for the segregation of duties.

Cause: The Town has not established procedures to ensure that the accounting system is being used accurately and efficiently to avoid use of excessive journal entries.

Effect: General Journal entries without adequate controls and procedures lead to lack of control and segregation of duties.

Recommendation: The Town should establish procedures to efficiently use the accounting system so as not to need the use of excessive journal entries.

Management Response: The Finance Officer, hired in May, recognizes the need to formulate accounting policies and procedures. One of the policies to be considered will be the Finance Officer signing off on all adjustments to the General Ledger.

2013-05. Monitoring Financial Disbursements

Condition: The Town has prepared and written checks in 2013 which were back dated to 2012.

Criteria: Prudent management requires municipal governments to establish procedures that allow effective, knowledgeable and timely decision making based on actual financial activity within the controls of the accounting structure.

Cause: The Town has not established procedures to structure the accounting system on an accrual basis of accounting, nor has the knowledge to understand how the internal controls should work.

Effect: The cash is materially understated at the end of the year. IRS reporting regarding Form 1099 reporting overstated.

Recommendation: The Town should establish consistent procedures to monitor the status and value of all assets and liabilities and link the timing of decision making to these values.

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

B. Findings - Financial Statement Audit (continued)

Material Weaknesses (continued)

2013-05. Monitoring Financial Disbursements (continued)

Management Response: Coordination between the Town Manager's Office and the Town Treasurer's Office is critical for utilizing proper accrual and modified accrual accounting. One of the objectives of the new Finance Officer is to formulate new accounting policies and procedures. In doing so, the Town's intent is to properly utilize accrual and modified accrual accounting as well as to initiate procedures for the differing Town Offices to enable the cohesive production of uniform financial statements.

2013-06. Monitoring Liabilities

Condition: The Town does not record liabilities until the date the checks are written regardless of time of service or date liability occurred.

Criteria: Prudent management requires municipal governments to establish procedures that allow effective, knowledgeable and timely decision making based on actual financial activity within the controls of the accounting structure.

Management Response: Coordination between the Town Manager's Office and the Town Treasurer's Office is critical for the proper recoding of liabilities. The Town intends to produce written policies and procedures for accrual and modified accrual standards as well as procedures for the differing Town Offices to enable the cohesive production of uniform financial statements.

Cause: The Town has not established procedures to structure the accounting system on an accrual basis of accounting, nor has the knowledge to understand how the internal controls should work.

Effect: Expenses and liabilities are materially understated at the end of the year.

Recommendation: The Town should establish consistent procedures to monitor the status and value of all assets and liabilities and link the timing of decision making to these values.

Management Response: Coordination between the Town Manager's Office and the Town Treasurer's Office is critical for the proper recording of liabilities. The Town intends to produce written policies and procedures for accrual and modified accrual standards as well as procedures for the differing Town Offices to enable the cohesive production of uniform financial statements.

2013-07. Monitoring Financial Statement Accounts

Condition: The Town does not use the segregation of general ledger chart of accounts and accumulation of expenses.

Criteria: Prudent management requires municipal governments to establish procedures that allow effective, knowledgeable and timely oversight of financial activity within the controls of the accounting structure.

Cause: The Town has not established procedures to structure the accounting system and use of chart of accounts for useful management information or segregation of costs. Therefore, many costs and revenues are collected in miscellaneous accounts which lead to under reporting of grant and project costs as well as a weakness in segregation of costs for management and oversight monitoring.

Effect: Revenue and expenses cannot be tracked in natural groupings or monitored for reporting to the Board.

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

B. Findings - Financial Statement Audit (continued)

Material Weaknesses (continued)

2013-07. Monitoring Financial Statement Accounts (continued)

Recommendation: The Town should establish consistent procedures of postings to natural groupings of revenue and expense accounts which are both useful and meaningful to the readers and users of the financial reports.

Management Response: Since 2013, the Town rarely uses miscellaneous accounts and will continue to minimize them in the future.

2013-08. Lack of Knowledge

Condition: The Town's staff did not have the knowledge to accurately prepare financial reports and offer reconciled, meaningful financial reports to the Board.

Criteria: Prudent management requires municipal governments to staff knowledgeable personnel of whom can prepare, reconcile and complete financial reporting to the Town Manager and Board of Selectman.

Cause: The Town Manager and Board of Selectman did not have a staff that was qualified to be preparing financial information for management, grant reporting or reporting of accurate data.

Effect: Interim financial information was materially and significantly incorrect.

Recommendation: The Town should obtain staff who are knowledgeable with the accounting of municipal governments and have the necessary background to accumulate all data and financial records into meaningful and accurate data.

Management Response: In May 2013, the Town hired a new Financial Officer to provide guidance and oversight over the Town Financial Statements and financial matters.

2013-09. Grant Reporting

Condition: Grant reporting was inaccurate due to incorrect information in the accounting financial statements.

Criteria: Prudent management requires municipal governments to staff knowledgeable personnel of whom can prepare, reconcile and complete financial reporting to appropriate granting authorities.

Cause: The Town Manager and Board of Selectman did not have staff who was qualified to be preparing or accumulating data regarding grants and required reporting.

Effect: Interim grant reports were incorrect.

Recommendation: The Town should implement a grant reporting process from the period of grant inception, including grant criteria, grant segregation in the chart of accounts, reporting and quarterly reconciliations.

Management Response: Grants are essential to the Town. Critical to grant management is the ability to follow the revenues and expenses related to specific grants within the financial statements. The Town will work with its auditor to analyze the grants and the various funds that these grants are in – to ensure compatibility. The Finance Officer will work towards consolidating the grant reporting.

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

B. Findings - Financial Statement Audit (continued)

Material Weaknesses (continued)

2013-10. Approving Grant Related Expenses

Condition: Invoices were approved and paid without required backup of direct travel or reimbursable expenses.

Criteria: Prudent grant management requires a reasonable approval process of invoices prior to payment. This approval includes review and accuracy of expenditures included in invoices.

Cause: The Town Manager and Board of Selectman did not have staff qualified to be approving or reviewing invoices prior to payment.

Effect: Invoices as they related to grants were paid in excess of allowable amounts, including markup's on sub-contractor travel costs, overbilling of labor costs and excessive overtime costs to time and material costs versus lump sum costs portions of the contracts.

Recommendation: The Town should implement a grant reporting process which includes approval criteria, a strong understanding of the granting agencies requirements and knowledge of allowable costs to the individual grants being monitored and received.

Management Response: In 2013, the Town was successful in filling the vacant Town Manager's position as well as hiring a new full time Finance Officer. The new management team is now working to consolidate the grant management process. A process where a knowledgeable management employee will be responsible for making sure that expenses are proper and in accordance with contracts and agreements and the Finance Officer will be responsible for making sure that costs are properly reflected in the accounts and financial statements.

2013-11. Monitoring Grant Related Expenses

Condition: Invoices were approved and paid without regard to vendor's contract or oversight of contract terms.

Criteria: Prudent grant management requires a reasonable approval process of invoices prior to payment, as well as a strong understanding of vendor charges and the financial relations to the contract.

Cause: The Town Manager paying a premium rate to vendor due to the nature of a contract which included both time and material and lump-sum portions.

Effect: All overtime labor costs were billed to time and material portion of contract versus lump-sum portion contract. This created an excessive increase to the time and material portion of contract while also creating an excessive hourly rate under the lump-sum portion of the contract.

Recommendation: The Town should implement a contract with vendors that do not include in both types of contracts one fee. Town should obtain a higher level of review and understanding of vendor invoicing to obtain a reasonable cost expectation and reasonable use of grantor's funds.

Management Response: In 2013, the Town was successful in filling the vacant Town Manager's position as well as hiring a new full time Finance Officer. The new management team is now working to consolidate the grant management process. A process where a knowledgeable management employee will be responsible for making sure that expenses are proper and in accordance with contracts and agreements and the Finance Officer will be responsible for making sure that costs are properly reflected in the accounts and financial statements.

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

A. Summary of the Audit Results

1. Type of report on the financial statements: unqualified opinion.
2. Significant deficiencies were reported during the audit of the financial statements (material weaknesses).
3. Instances of noncompliance material to the financial statements were disclosed during the audit.
4. Deficiencies relating to the audit of the major federal programs are reported in the *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*.
 - a. Material weaknesses identified.
 - b. Significant deficiencies identified that are not considered to be material weaknesses:
none.
5. Type of report on compliance for major programs: unqualified opinion.
6. Audit findings reported.
7. The programs tested as major programs are the Water & Waste Disposal Systems for Rural Communities – American Recovery and Reinvestment Act, CFDA 10.781, Portland Street Bridge/Bike Path, CFDA 20.205, and FEMA Disaster Recovery, CFDA 97.036.
8. Dollar threshold to distinguish between type A and type B programs: \$300,000.
9. The auditee is a high risk auditee.

B. Findings - Financial Statement Audit

The following findings are required to be reported in accordance with OMB Circular A-133 and are reported in the accompanying schedule.

Material Weaknesses

2012-01. Financial Management

Condition: The Town has not established an adequate procedure to ensure authorized activity occurs regarding designations and/or reservations of fund balances.

Criteria: Generally accepted accounting principles require organizations to establish financial management procedures to ensure all financial activity authorized by the governing body occurs.

Cause: The basis of accounting used by management and governance is not fully understood by all personnel in decision making authority.

Effect: Activity, such as designations of fund balance, authorized by the Select Board is not consistently accomplished.

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

B. Findings - Financial Statement Audit (continued)

Material Weaknesses (continued)

2012-01. Financial Management (continued)

Recommendation: The Town should establish procedures to ensure that authorized activity is accomplished or that a change in the Town's plan is recorded, if circumstances exist requiring changes to an authorized plan.

Management response: Employee turnover in management positions has resulted in a lack of proper oversight of financial affairs. The Town has included funding in its 2013 proposed budget to create a position of Finance Officer, and expects to fill the position beginning July 1, 2013. This position will be responsible for establishing and maintaining proper controls and procedures over accounting matters.

2012-02. Notes Receivable Monitoring

Condition: The Town does not adequately value or report all long-term notes receivable.

Criteria: Generally accepted accounting principles require organizations to record and report all financial assets at present value of long-term notes receivable.

Cause: The Town has not established procedures to ensure accuracy and monitoring of the collectability and value of long-term notes receivable.

Effect: Overstated assets for government-wide net assets on the Town's financial statements.

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

Management response: Short staffing has resulted in inadequate monitoring of notes receivable. The new position of Finance Officer will provide a high level staff member to regularly monitor the status of loan repayments and follow up on collection efforts.

2012-03. Monitoring Financial Activity

Condition: The Town has not adequately developed procedures to ensure that governance and management can effectively monitor financial activity.

Criteria: Prudent management requires municipal governments to establish procedures that allow effective and timely decision making based on actual financial activity.

Cause: The Town has not established procedures to monitor balance sheet account balances and has not developed procedures to evaluate the amount of fund balance available for designation.

Effect: The financial statements are inaccurate during year from which proper controls cannot be maintained.

Recommendation: The Town should establish consistent procedures to monitor the status and value of all assets and liabilities and link the timing of decision making to these values.

Management Response: The lack of a financial management position has resulted in a failure to properly reconcile asset and liability accounts on a regular basis. One of the responsibilities of the new Finance Officer will be to ensure that monthly reconciliations are prepared and reviewed by responsible officials.

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

B. Findings - Financial Statement Audit (continued)

Material Weaknesses (continued)

2012-04. General Journal Entries

Condition: General Journal entries are used in excess and are not consistently accompanied by supporting documentation.

Criteria: Generally accepted accounting principles require that organizations develop procedures that allow for the segregation of duties.

Cause: The Town has not established procedures to ensure that the accounting system is being used accurately and efficiently to avoid use of excessive journal entries.

Effect: General Journal entries without adequate controls and procedures lead to lack of control and segregation of duties.

Recommendation: The Town should establish procedures to efficiently use the accounting system so as not to need the use of excessive journal entries.

Management Response: Changes in personnel have resulted in the NEMRC accounting system not being used to its full potential. Additional training will be sought to more properly utilize the various modules of the system, which will result in fewer journal entries being required. In addition, with the addition of the position of Finance Officer, proper procedures can be put in place whereby proposed journal entries will be reviewed and approved by the Finance Officer before posting to the system.

2011-05. Monitoring Financial Disbursements

Condition: The Town has prepared and written checks in 2013 which were back dated to 2012.

Criteria: Prudent management requires municipal governments to establish procedures that allow effective, knowledgeable and timely decision making based on actual financial activity within the controls of the accounting structure.

Cause: The Town has not established procedures to structure the accounting system on an accrual basis of accounting, nor has the knowledge to understand how the internal controls should work.

Effect: The cash is materially understated at the end of the year. IRS reporting regarding Form 1099 reporting overstated.

Recommendation: The Town should establish consistent procedures to monitor the status and value of all assets and liabilities and link the timing of decision making to these values.

Management Response: Proper accounting for both payables and cash balances is crucial for proper financial reporting. Accrual accounting is necessary to ensure that expenses are reflected in the period in which they are incurred, and an accurate cut-off of dates of payment of those expenses is essential for reporting both cash balances and vendor payments. The Town will establish procedures to properly utilize accrual accounting to record expenses.

2011-06. Monitoring Liabilities

Condition: The Town does not record liabilities until the date the checks are written regardless of time of service or date liability occurred.

Criteria: Prudent management requires municipal governments to establish procedures that allow effective, knowledgeable and timely decision making based on actual financial activity within the controls of the accounting structure.

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

B. Findings - Financial Statement Audit (continued)

Material Weaknesses (continued)

2012-06. Monitoring Liabilities (continued)

Cause: The Town has not established procedures to structure the accounting system on an accrual basis of accounting, nor has the knowledge to understand how the internal controls should work.

Effect: Expenses and liabilities are materially understated at the end of the year.

Recommendation: The Town should establish consistent procedures to monitor the status and value of all assets and liabilities and link the timing of decision making to these values.

Management Response: Proper accounting for both payables and cash balances is crucial for proper financial reporting. Accrual accounting is necessary to ensure that expenses are reflected in period in which they are incurred, and an accurate cut-off of date of payments of those expenses is essential for reporting both cash balances and vendor payments. The Town will establish procedures to properly utilize accrual accounting to record expenses.

2012-07. Monitoring Financial Statement Accounts

Condition: The Town does not use the segregation of general ledger chart of accounts and accumulation of expenses.

Criteria: Prudent management requires municipal governments to establish procedures that allow effective, knowledgeable and timely oversight of financial activity within the controls of the accounting structure.

Cause: The Town has not established procedures to structure the accounting system and use of chart of accounts for useful management information or segregation of costs. Therefore, many costs and revenues are collected in miscellaneous accounts which lead to under reporting of grant and project costs as well as a weakness in segregation of costs for management and oversight monitoring.

Effect: Revenue and expenses cannot be tracked in natural groupings or monitored for reporting to the Board.

Recommendation: The Town should establish consistent procedures of postings to natural groupings of revenue and expense accounts which are both useful and meaningful to the readers and users of the financial reports.

Management Response: The Town will review its chart of accounts for the various funds of the Town and will adopt a more uniform chart of accounts as recommended by the Government Finance Officers Association.

2012-08. Lack of Knowledge

Condition: The Town's staff did not have the knowledge to accurately prepare financial reports and offer reconciled, meaningful financial reports to the Board.

Criteria: Prudent management requires municipal governments to staff knowledgeable personnel of whom can prepare, reconcile and complete financial reporting to the Town Manager and Board of Selectman.

Cause: The Town Manager and Board of Selectman did not have a staff that was qualified to be preparing financial information for management, grant reporting or reporting of accurate data.

Effect: Interim financial information was materially and significantly incorrect.

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

B. Findings - Financial Statement Audit (continued)

Material Weaknesses (continued)

2012-08. Lack of Knowledge (continued)

Recommendation: The Town should obtain staff who are knowledgeable with the accounting of municipal governments and have the necessary background to accumulate all data and financial records into meaningful and accurate data.

Management Response: The town has created a new position of Finance Officer. The person hired for this position will have the experience and qualifications necessary to be able to maintain the accounting records in accordance with generally accepted accounting principles, and prepare timely financial reports that accurately reflect the financial position and results of operations of the Town.

2012-09. Grant Reporting

Condition: Grant reporting was inaccurate due to incorrect information in the accounting financial statements.

Criteria: Prudent management requires municipal governments to staff knowledgeable personnel of whom can prepare, reconcile and complete financial reporting to appropriate granting authorities.

Cause: The Town Manager and Board of Selectman did not have staff qualified to be preparing or accumulating data regarding grants and required reporting.

Effect: Interim grant reports were incorrect.

Recommendation: The Town should implement a grant reporting process from the period of grant inception, including grant criteria, grant segregation in the chart of accounts, reporting and quarterly reconciliations.

Management Response: The Town recognizes its weakness in grant administration. It is important that grants be properly administered from the time a grant is initially applied for. Proper administration involves obtaining an understanding of the terms of the grant, including eligible costs and activities, cost-sharing principles, and reporting requirements, as well as ensuring that reports that are submitted to grantor agencies correspond to the actual activity included in the financial statements. The Finance Officer will be responsible for grant administration in all departments.

2012-10. Approving Grant Related Expenses

Condition: Invoices were approved and paid without required backup of direct travel or reimbursable expenses.

Criteria: Prudent grant management requires a reasonable approval process of invoices prior to payment. This approval includes review and accuracy of expenditures included in invoices.

Cause: The Town Manager and Board of Selectman did not have staff qualified to be approving or reviewing invoices prior to payment.

Effect: Invoices as they related to grants were paid in excess of allowable amounts, including markup's on sub-contractor travel costs, overbilling of labor costs and excessive overtime costs to time and material costs versus lump sum costs portions of the contracts.

Recommendation: The Town should implement a grant reporting process which includes approval criteria, a strong understanding of the granting agencies requirements and knowledge of allowable costs to the individual grants being monitored and received.

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013

B. Findings - Financial Statement Audit (continued)

Material Weaknesses (continued)

2012-10. Approving Grant Related Expenses (continued)

Management Response: The Town will implement procedures that will improve the approval process for grant expenses. A knowledgeable management employee will be responsible for making sure that expenses are proper and in accordance with contracts and agreements, and the Finance Officer will be responsible for making sure that costs are properly reflected in the accounts and financial report.

2012-11. Monitoring Grant Related Expenses

Condition: Invoices were approved and paid without regard to vendor's contract or oversight of contract terms.

Criteria: Prudent grant management requires a reasonable approval process of invoices prior to payment, as well as a strong understanding of vendor charges and the financial relations to the contract.

Cause: The Town Manager paying a premium rate to vendor due to the nature of a contract which included both time and material and lump-sum portions.

Effect: All overtime labor costs were billed to time and material portion of contract versus lump-sum portion contract. This created an excessive increase to the time and material portion of contract while also creating an excessive hourly rate under the lump-sum portion of the contract.

Recommendation: The Town should implement a contract with vendors that does not include in both types of contracts one fee. Town should obtain a higher level of review and understanding of vendor invoicing to obtain a reasonable cost expectation and reasonable use of grantor's funds.

Management Response: The Town will implement procedures that will improve the approval process for grant expenses. A knowledgeable management employee will be responsible for making sure that expenses are proper and in accordance with contracts and agreements, and the Finance Officer will be responsible for making sure that costs are properly reflected in the accounts and financial reports.