



## Report of the Vermont State Auditor

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April 25, 2007

# BRATTLEBORO MULTI-MODAL PROJECT

Review of Proper Utilization of  
State of Vermont Funding and  
other Observations

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**Thomas M. Salmon, CPA**  
**Vermont State Auditor**  
**Rpt. No. 07-06**

### **Mission Statement**

The mission of the Auditor's Office is to be a catalyst for good government by promoting reliable and accurate financial reporting as well as promoting economy, efficiency, and effectiveness in state government.

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**THOMAS M. SALMON  
STATE AUDITOR**



**STATE OF VERMONT  
OFFICE OF THE STATE AUDITOR**

April 25, 2007

Speaker of the House of Representatives Gaye Symington  
President Pro Tempore of the Senate Peter Shumlin  
Governor James H. Douglas  
Neale Lunderville, Secretary, Agency of Transportation  
Kevin Dorn, Secretary, Agency of Commerce & Community Development

Dear Colleagues,

This Office recently concluded a review of the Brattleboro Multi-Modal Transportation Center (completed) and Union Station project (to be constructed) in partnership with the Federal Transit Administration (FTA). The two-phase project is expected to cost approximately \$15 million when completed.

The federal government, through the FTA, is expected to provide approximately \$8 million of the project funding. The FTA awarded Brattleboro its grant in May 2000. Grants from the State have totaled \$1.8 million thus far, and will reach \$2.2 million upon the project's completion. Locally raised monies, primarily through a \$4 million bond issuance by the Town, make up the balance of the project's funding sources.

Because the federal government was the lead funding source on this project and provides the primary financial oversight, and because State funding of the project was significantly less than both the Federal and local shares, this Office sought to answer two basic questions:

1. Was the funding provided directly by the State of Vermont spent appropriately toward completing the project? and
2. Did the State agencies that granted funds to the project conduct adequate post-award follow-up, known as sub-recipient monitoring, to ensure that taxpayers were receiving good value for the State's investment?

Regarding question 1, it is our view that State funds were spent correctly. The Agency of Transportation (AOT) supported specific construction projects – such as a connecting stairway – which has been completed. The Agency of Commerce and Community Development (ACCD) provides \$100,000 annually, up to \$1 million in total, to support the construction of the parking garage, completed in 2003, and on-going debt service expenses.

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Regarding question 2, it is our view that both these State agencies performed adequate monitoring over the specific funds granted by their agencies. However, it appears from the record that the internal control deficiencies in the Town of Brattleboro's financial accounting and reporting system, highlighted in the FTA report and this report, as well as in past independent annual financial statement audit reports of the Town, were not noted by ACCD. These deficiencies were noted by AOT, and the Agency's response was to inform AOT managers involved with Brattleboro projects. The Agency had been satisfied that the Town of Brattleboro had utilized AOT funds for their intended purposes and that the work was satisfactorily completed.

The past two State Auditors have emphasized the need for State agencies to improve their monitoring of State grants to local government and other non-State organizations. In response, the Governor's Administration Secretary on July 1, 2006 issued a new bulletin for state agencies in this regard: *Bulletin No. 5.5: Policy for Issuing and Monitoring Grants of State Funds*.

The introduction notes: "The grants category is one area where the span of control over actual spending is minimal due to the fact that its spending is occurring outside the State's direct sphere of control. Therefore there is a need to monitor this spending to ensure that it is occurring as directed by law, within the terms of the grant agreement and as agreed to by the grantee."

The Bulletin adds:

**It is the policy of the State of Vermont that all distributions of state funds classified in law as "grants" or as defined in this policy, be tracked and monitored by the granting state entity to ensure the proper use and protection of taxpayer resources in conformity with law, in accordance with the terms and guidelines contained in the grant agreement document, and in a manner consistent with a written state funded grants plan.**

I applaud actions by the State to improve monitoring of State funds going out to towns for various projects.

There are lessons for all Vermont towns and cities in this report, and in the FTA report on the project's financial shortcomings. (See the Town of Brattleboro website at [www.brattleboro.org](http://www.brattleboro.org) for the FTA findings.) These lessons are about the challenges of meeting additional federal and state standards for the proper accounting and reporting of special project funds. Clearly, the Town of Brattleboro's municipal oversight of this project was hindered by available staff resources, staff turnover, complex and strict federal standards, changes in the Town's accounting system, and also the excessive delegation of financial oversight and reporting to a third-party Project Manager.

The FTA report has no findings of fraud or abuse related to the project. This is good news. Hopefully, town and city management all over the state can learn from this and the FTA report and improve their project management and accounting procedures as necessary.

As the new State Auditor, one of my goals is to work with cities and towns to improve financial competence so that taxpayer dollars at all levels can be more effectively managed and accounted for. The Town of Brattleboro has expressed a commitment to improve its accountability systems. I salute

Town officials for their recent progress in implementing corrective actions. Their example should inspire others in Vermont to make needed improvements.

Please feel free to contact me at any time about this report.

Sincerely,

Handwritten signature of Thomas M. Salmon CPA in black ink.

Thomas M. Salmon, CPA  
Vermont State Auditor

cc: Barbara Sondag, Assistant Brattleboro Town Manager  
John Leisenring, Finance Director, Town of Brattleboro

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## Abbreviations

ACCD	Agency of Commerce and Community Development (State of Vermont)
AOT	Agency of Transportation (State of Vermont)
BTC	Brattleboro Transportation Center (the parking garage)
BUS	Brattleboro Union Station (the train station)
FMO	Financial Management Oversight
FSR	Financial Status Reports
FTA	Federal Transit Administration
SAO	State Auditor's Office

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## Introduction

The State Auditor's Office (SAO) conducted a limited scope review of Brattleboro's Multi-Modal Transportation Center and Union Station Projects. The review was conducted in partnership with the Federal Transit Administration (FTA) during its performance of a broader Financial Management Oversight (FMO) review that was conducted during the Fall of 2006.

SAO's review was conducted under the authority of 32 V.S.A. §163, which charges the Office with the responsibility for the audit of State funds and for Federal funds passed-through State of Vermont agencies.

**The scope of the SAO review did not extend to the audit of any local funding sources or to any federal funds received by the Town of Brattleboro directly from an agency of the Federal government.**

The Brattleboro Multi-Modal Project consists of two separate phases. The first phase was the construction of a parking garage, known as the Brattleboro Transportation Center, located between Flat and Elliot Streets, which was completed in 2003. The facility is a four-story structure, with 305 parking spaces, a bus terminal, a covered stairway between Elliot and Flat Streets, 10,300 square feet of commercial space, and office space for the Brattleboro Parking Enforcement Department.

The second phase, renovation of the Union Station building nearby, to date has been limited to planning and acquisition of some needed parcels of adjacent land. The Union Station building serves as a stop on Amtrak's Vermonter line and also serves several other local railroads.

As a result of Brattleboro's proximity to airports in Keene and Manchester, New Hampshire, it does not have an airport of its own. An enhanced train station in the downtown area with a modern parking facility has, for many years, been seen as a way to improve the number of travelers that pass through the Town and to enhance opportunities for it to become a destination city.

As of October 2006, the cost of the two-phased project was estimated to be approximately \$14.9 million. These funds were expected to be obtained from the following sources:

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**Table 1. Estimated Cost of Multi-Modal Project When Completed, by Funding Source.**

<i>Source</i>	<i>Amount</i>
Federal Funds (from FTA)	\$ 7,890,531
Grants from State of Vermont	1,797,648 <sup>1</sup>
Local Funds raised by bond issue	4,000,000
Other Local Funds	1,211,710
TOTAL	\$14,899,889

*Source: Town of Brattleboro*

Our primary concerns in relation to this project were twofold:

1. that the funding provided by the State was spent as intended on the completion of the project; and
2. that the State granting agencies performed an appropriate level of post-award follow-up, known as sub-recipient monitoring, to ensure that taxpayers continued to receive appropriate value for the State's investment.

In order to determine whether or not this was the case, SAO employed procedures in several broad areas, including the following:

- Participated in interviews with Town of Brattleboro staff during the Federal Transit Authority's more detailed Financial Management Oversight (FMO) review to determine the quality of internal controls in place at the Town over the receipt of and accounting for funds received from the State.
- Confirmed all State funds received by the town to State financial records and followed up with grantor agencies to determine the Town's compliance with grant restrictions, as well as the adequacy of sub-recipient monitoring procedures employed by the grantor State agencies.

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<sup>1</sup> Excludes \$400,000 granted by the State under the Downtown Program that was applied to debt service costs from 2004-2007.

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- Reviewed reports from the Town’s independent auditors in relation to financial statements, the Federal compliance audit performed in accordance with OMB Circular A-133, and the auditors’ reports on internal controls.

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## Background

The Federal Transit Administration (FTA), a division of the Federal Department of Transportation, makes grants to states and municipalities under a variety of programs. Several Vermont communities have applied for funds under FTA programs to develop “multi-modal” projects. Multi-modal projects generally refer to projects that will develop facilities in which travelers will arrive via one mode of transportation, such as by car, and leave via another mode, such as a train.

Brattleboro’s Multi-Modal Project was conceptualized as an exchange point of travelers between their cars and public rail transportation. Travelers arriving by car would park their car in the newly developed Brattleboro Transportation Center parking deck and access the passenger Amtrak system at the newly remodeled Brattleboro Union Station located a short walk away. To qualify as a Multi-Modal facility, sixty-five parking spaces in the parking deck had to be designated as relating to long-term parking for rail travelers leaving Union Station. The Multi-Modal facility would also host local bus services.

Construction of the Transportation Center (parking garage, bus terminal, office space, etc.) portion of the project was completed in 2003.

Delays have been encountered in the Union Station phase of the project, partly as a result of litigation initiated by adjacent property owners whose land the Town needed to acquire to develop the Union Station parcel. An agreement between the Town and the owners of the adjacent property was not reached until 2006.

After the sale price of the property was finalized, public attention turned to the delays in the completion of the Union Station project. Citizen concerns regarding the detailed spending in the multi-modal project began to build. These concerns were exacerbated by the Town’s inability to readily provide the requested information because of the lack of well-organized records maintained by the Town concerning the multi-year project.

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In the summer of 2006, it was learned that the FTA would conduct a Financial Management Oversight (FMO) review of the project to evaluate the internal controls in place over the program's accounting and to determine the Town's compliance with FTA rules. Shortly thereafter, the SAO announced that it, too, would look at the project but from the perspective of auditing the State funds involved.

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## Scope and Methodology

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### Procedures Performed in Participation with FTA's FMO Review

The SAO participated in numerous interviews of Town personnel by FTA personnel and subcontractors in their performance of a Financial Management Oversight (FMO) Review during the fall of 2006. These interviews covered a wide range of topics, including:

- Financial Reporting and General Accounting
- Property Management and Fixed Assets
- Cash Management
- Procurement
- Accounts Payable
- Grants and Projects Management
- Payroll
- Budgeting

Following these interviews, subsequent testwork was performed by the SAO to corroborate some of the statements and situations discussed in the interviews. We also reviewed findings and recommendations developed as a result of more substantive testing of project records, policies and procedures, conducted by the FTA.

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### Statement on Government Auditing Standards

The engagement which resulted in this report was not performed according Government Auditing Standards as issued by the Comptroller General of the United States primarily because the State Auditor's Office conducted a "limited review" rather than a formal audit. The examination by the FTA of

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the Town of Brattleboro's internal controls over its financial management system to meet certain criteria established by the FTA was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We recommend that readers of this report also obtain the FTA report as well, available in the town's Document Library at [www.brattleboro.org](http://www.brattleboro.org).

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## Findings and Recommendations

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### 1. State Oversight of State Funds Granted to the Project

As noted above, grants from two agencies of State government provided approximately \$1.8 million in funding in relation to the construction of the Brattleboro Multi-Modal Project.

A more detailed breakdown of these funding sources is presented below:

**Table 2. Detail of State Funding Provided to the Brattleboro Multi-Modal Project**

<i>Grant</i>	<i>Source</i>	<i>Amount</i>	<i>BTC/Collected</i>	<i>BUS(2)/Outstanding</i>
Enhancement Grant '99	AOT	\$ 310,648	\$ 310,648	\$ -
Downtown Program (1)	ACCD	600,000	600,000	
CDBG pass through 2006	ACCD	115,000	-	115,000
CDBG pass through 2005	ACCD	180,000	180,000	
Enhancement Grant '00	AOT	192,000	-	192,000
Vtrans (AOT) (January 2004)	AOT	250,000	250,000	
Vtrans (AOT) Match	AOT	150,000	-	150,000
TOTAL CONSTRUCTION COSTS (2)		\$1,797,648	\$1,340,648	\$457,000
Downtown Program (1)	ACCD	400,000	200,000	200,000
TOTAL PROJECT COSTS		\$2,197,648	\$1,540,648	\$657,000

(1) Full amount of the grant is \$1,000,000. The amounts shown above consist of two pieces: \$600,000 that was applied to construction costs for the Brattleboro Transit Center and \$400,000 which is being applied in annual installments to debt service on the bonds issued by the Town. At October 31, 2006, \$200,000 remained to be funded by the State.

(2) Of this amount, \$1,340,648 has been expended by the State and received by the Town as part of the parking garage project. Grants totaling an additional \$457,000 to fund the Union Station renovation are currently on hold. .

Unexpended state grant amounts relating to the Brattleboro Union Station project (footnote 2 above) total \$457,000 for the construction of the Union Station project. Inquiry by the SAO indicated that these funds will not be expended by the State until the Union Station phase of the project gets under way. Additionally, there remain two installments of \$100,000 under the Downtown Development Grant that was unexpended at the time of this review. Therefore, the total State funds subject to this review were \$1,540,648.

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Agency of Commerce and  
Community Development Funding

The largest portion of State funds (\$1 million) was granted by the State Agency of Commerce and Community Development (ACCD) under the Downtown Development Program. The grant agreement states “that the Town of Brattleboro shall use grant funds to construct the Brattleboro Transportation Center on the ‘Bradley’ lot between Elliot and Flat Streets.”

The grant to the Town of Brattleboro is being paid in annual installments of \$100,000 from the grant start date through June 30, 2008. Payments are made on or about October 15 of each year after the submission of an Annual Report by the Town to the Agency.

SAO’s procedures noted that these Annual Reports with summary spreadsheet were filed with ACCD by the Town without exception. The reports must include data on how actual and projected revenues and expenses compare to projected amounts outlined in the grant agreement. If the Transportation Center’s cumulative surplus in the annual report is above projections, the annual State payment must be reduced by the same amount. A Downtown Program staff person at ACCD reviews this spreadsheet annually and reports that the cumulative surplus has not surpassed projections to date.

The grant contained an additional restriction that stated that grants made by the agency should not exceed 25 percent of the total actual costs of the project. Since the cost of the Transportation Center was approximately \$10 million, ACCD’s grant of \$1 million complied with this restriction.

The grant agreement also stipulated that “at any time during the period of Performance under this Agreement, the Agency may review all costs incurred by the Grantee and all payments made and income received. Upon such review the Agency shall disallow any items of income received, and any items of expense which it determines are not allowable or are in excess of approved expenditures.” To date, the Agency has not conducted any such reviews.

**Recommendation:** The Agency should perform procedures to verify the accuracy of the data provided by the Town.

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## Agency Transportation Funding

The 1999 Enhancement Grant by the Agency of Transportation (AOT) of \$310,648 was targeted for the replacement of a stairway from the Flat Street parking lot to Elliot Street. The staircase essentially runs from the bottom of the garage on Flat Street to the top on Elliot Street. Upon the completion of the staircase and the submission of invoices documenting that the Town of Brattleboro had paid the entire cost of the staircase (\$388,310), AOT reimbursed the Town for its 80 percent share of the cost, or \$310,648, in April 2004.

As a condition to the receipt of the Enhancement Grant described above, the Agency of Transportation and the Town of Brattleboro signed a Cooperative Agreement in April 2003.

Several sections of this agreement were considered notable by the SAO in relation work it performed in other areas of this review. These sections are presented in Appendix I. Of particular note is the requirement of the Town of Brattleboro to provide AOT with a copy of its annual single audit performed in accordance with OMB Circular A-133. According to AOT, the required reports were received and reviewed by Agency staff. (See Appendix II.)

Regarding another AOT grant of State funds, the Town of Brattleboro submitted a request for payment to the AOT for \$250,000 in State matching funds for the Brattleboro Transportation Center. The request, made in December, 2003, was supported by certificates for payment from contractors totaling \$5.5 million. As the Town had spent in excess of \$2.5 million in Federal funds on these invoices, the request for payment of the State's 10 percent share was properly supported. It was approved by AOT in December 2003.

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## 2. Overall Project Accounting

The Town of Brattleboro did not maintain independent records detailing the various project costs that were part of the multi-modal project. Instead, Town personnel relied heavily on the third-party Project Manager to maintain these records. The Project Manager, whose professional expertise is in the areas of engineering and construction, not accounting, attempted to maintain an analysis of project costs in an Excel spreadsheet. This spreadsheet was never shared with Town personnel and it appears that a reconciliation of this detailed spreadsheet to the Town's General Ledger was never attempted. This situation undoubtedly contributed to other problems note below, such as the failure to submit Financial Status Reports (FSRs) on a timely basis or to

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provide the Select Board and citizens with clear, concise answers to their questions regarding project costs.

The Town's independent auditors noted similar problems with the accounting for other projects as early as 2004.

**Recommendation:** We recommend that the Town take the steps necessary to ensure that all project accounting functions for the Union Station and other projects be brought in-house as soon as possible, and that these project accounting records be reconciled to the General Ledger on a regular basis.

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### 3. Federal Drawdown Requests

The Town was unable to provide supporting documentation for all drawdowns against its federal grants. In addition, many of the drawdown requests were submitted by the Project Manager, who was not a Town employee.

**Recommendation:** We recommend that copies of all federal drawdown requests be maintained centrally in the Town's Finance Department along with all documentation supporting the amount of the drawdown. We further recommend that the Town take the necessary steps to ensure that drawdowns are only requested by authorized Town employees.

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### 4. Filing of Federal Financial Status Reports (FSRs)

As noted above, SAO found that the Town of Brattleboro had properly submitted required paperwork in support of grant payments made by the State. However, the Town, as a direct recipient of Federal grants, was also required to submit quarterly Financial Status Reports (FSRs) to the FTA, after the Town started drawing federal funds. SAO noted that only one such FSR had been filed, for the quarterly period ended June 30, 2006.

In addition, the report included only activity for that 90-day period and did not reflect any cumulative expense information. Furthermore, the FSR filed did not appear to contain correct information for state and local matching funds. Finally, the report was prepared from a spreadsheet prepared by the Project Manager, rather from the Town's original accounting records consisting of the General Ledger and the subledgers that support it.

**Recommendation:** We recommend that the Town take adequate steps to ensure that future FSRs are filed timely and are reviewed and approved by the Finance Director prior to being filed. Further, the FSRs should be

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prepared from financial information that is included in the General Ledger or which can be reconciled to it.

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## 5. Project Manager Contract

The Multi-Modal Project was managed since inception by a third-party contractor with offices in Brattleboro. During the process of our review, it became evident that the Town placed undue reliance on this individual and allowed him to perform functions that should have been performed by Town employees. We found that most of the documentation relating to the Multi-Modal Project was maintained at the Project Manager's place of business. A complete set of files relating to the project was not maintained at the Town offices. Among the functions performed by the Project Manager were the submission of federal drawdown requests and the maintenance of a spreadsheet which was intended to accumulate all project costs for project accounting and reporting purposes.

It was also noted during the review that neither the Project Manager, nor the Town, could locate a copy of the contract under which the Project Manager had worked for the Town since January 28, 2000. From that date through September 30, 2006, the Town paid the Project Manager's Management Company approximately \$471,000. During the review, the Town attempted to rectify this situation by rebidding the Project Manager's work. The prior Project Manager's management company was among several bidders for the work. However, the Town did not award the contract to any of the bidders because it was subsequently learned that the bidding process did not properly follow FTA procurement requirements.

**Recommendation:** We recommend, after having procured project management services in a manner that complies with FTA requirements, that the Town ensure that a contract with a new Project Manager be properly executed and that a copy be maintained by the Town. In addition, we recommend that the Town take the steps necessary to ensure that the Project Manager's activities be adequately supervised by appropriate Town employees. Finally, we recommend that the Town ensure that it maintains a complete record of all grant related files independent of any files kept by the Project Manager.

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## 6. Documentation of Accounting Policies and Procedures

The Town does not have written policies and procedures relating to all of its accounting procedures, including cash management, payroll, accounts payable, and the adoption of procurement standards which are compliant with Federal guidelines. Specifically, procurement policies should be enhanced to

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ensure that bidding of projects includes proof of a competitive bid analysis and that the Town takes appropriate steps to make sure that vendors have not been suspended or debarred from receiving federal funds.

Documented accounting policies and procedures serve as a better foundation for internal controls as they can be used by employees to ensure that sufficiently stringent procedures are followed in the performance of their duties. In addition, these policies and procedures can also be used to train new employees or to cross-train other employees to perform different functions, thereby enhancing internal controls by improving the capability of the staff and ensuring an adequate segregation of duties.

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## 7. Interim Financial Reporting

It was noted that the Town does not provide sufficiently detailed financial information to its Select Board on a regular basis. The Town's new Finance Director, who was hired in July 2006 has stated that it is his goal to implement a monthly closing process and to provide information to the Select Board on a monthly basis in sufficient detail to keep them apprised as to the Town's financial condition and how its revenues and expenditures are tracking according to the adopted budget. The SAO supports this initiative and believes that it is appropriate for the Finance Department to be providing this information to the Select Board on a monthly basis.

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## 8. Review of Reports Issued by the Town of Brattleboro's Independent Auditor

SAO reviewed the Town of Brattleboro's Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 for the years ended June 30, 2004 and 2005.

The June 30, 2004 report noted five material weaknesses, including:

1. The Town had not identified and recorded capital assets and infrastructure used in government activities as required by Governmental Accounting Standards Board (GASB) Statement No. 34.
2. As had been reported in past audits, a significant number of adjusting entries to the general ledger were required at the end of the year to complete the accounting cycle. The adjustments represent unrecorded transactions or the correction of errors not detected by internal control procedures. The Town needs to establish a routine monthly review and supervision process. Account reconciliations should be prepared timely and any required adjustments should be recorded promptly. Documentation should be retained

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for all adjustments to recorded balances and should include evidence of supervisory approval.

3. The Town should establish complete project accounts at the beginning of each major project and fully record all transactions as they occur. Project controls should include interim project reporting and reconciliation of reports to recorded account balances. Project close-out should include a final project report which supports the capital asset records.

4. Taxes billed had not been recorded as receivables so that collections recorded in the account produced a negative receivable balance rather than reflecting the actual balance of uncollected taxes. Internal controls for the revenue cycle should include the regular reconciliation of general ledger control accounts to the supporting detail balances. Delays in recording cash received by the Treasurer in the general ledger were also noted.

5. A bank account maintained for the receipt of wire transfers for certain grant programs was not recorded on the general ledger. At the end of the year, the account had accumulated a balance of approximately \$260,000 that was not recorded on the general ledger. The auditors also recommended that the Town require the completion of a standard form or memo to authorize drawdown or transfer of grant funds. They further stated that the Town needs to review its procedures and controls over cash accounts. The Finance Department needs to be informed when new cash accounts are opened so that they can be added to the general ledger. The Finance Department needs to receive bank statements in order to record the interest and reconcile the bank statement balances to the general ledger.

There were several reportable conditions that were not considered significant to SAO's review. However, there was one reportable condition related to program accounting and controls which was relevant:

1. The Town participates in several State and Federal programs and is required to maintain separate and complete accounting records to support financial reporting requirements. The Town is also obligated to establish controls over compliance with program requirements. The auditors noted a significant number of year-end adjusting entries were prepared to correct general ledger account balances, including entries to accounts for State and Federal programs. The auditors recommended the Town assign and supervise duties and responsibilities for all program accounting and administrative requirements and noted that internal controls for compliance with program accounting and administrative requirements should be performed regularly and the documentation retained.

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Town management concurred with all of the recommendations made by the independent auditors.

SAO's review of the June 30, 2005 report noted that the number of material weaknesses had increased from five (5) to eleven (11). The auditors noted that the conditions in prior year material weaknesses 1, 3, 4, and 5 had not changed significantly. The Town had made some progress on material weakness number 2 but not enough for auditors to no longer consider it a material weakness. Six additional material weaknesses were noted in the June 30, 2005 audit:

1. During the year, the Town converted its tax accounts receivable detail to a new software system but excluded approximately \$76,000 in accounts that either had been abated or were incorrect.
2. Recommended the Town develop control procedures to document management review and approval of all adjustments to Utility Fund accounts receivable.
3. The auditors noted an unauthorized loan of \$400,000 to the General Fund from the Small Business Assistance Program restricted use fund. The loan was repaid, with interest, within four months but it was not authorized by the Select Board.
4. Adjusting journal entries to reverse two journal entries recorded by the Town that were not in accordance with Generally Accepted Accounting Principles (GAAP).
5. Town failed to perform sufficient cash flow planning to prevent an overdraft in the primary bank account, which necessitated the establishment of a bank line of credit in anticipation of subsequent tax collections.
6. Auditors concluded that management controls were not operating effectively on a consistent basis leading to a heightened risk of errors or fraud. Many critical tasks such as reconciliations and correction of general ledger accounts and analysis of interim operating results are often deferred or overlooked until the end of the fiscal year. The auditors recommended that the Town assess its internal controls, develop and implement policies and procedures for routine accounting and reporting, establish target dates and provide resources for larger projects, and implement additional communication and review controls to ensure that Town employees in management, finance, and other departments can effectively coordinate their assigned responsibilities.

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Town management again concurred with all of the recommendations made by the independent auditors.

Several of the comments noted above by the independent auditors are consistent with SAO's findings based upon its inquiry of management personnel and the limited test procedures that it performed. The following were considered to be of particular significance by the SAO in relation to its review:

- That material weaknesses from the June 30, 2004 audit were largely unaddressed before the performance of the June 30, 2005 audit and that several of the comments noted in the 2004 audit had been noted in prior years.
- Auditor recommendations to establish tighter controls over project accounting and close out as early as 2004 had not been addressed by the commencement of the SAO review and the FTA FMO review in late 2006.
- Unrecorded bank accounts with balances in excess of a quarter of a million dollars relating to grant programs at year-end 2004. Though the balances were much less significant the following year, the accounts still were not listed on the general ledger.
- Independent auditor's conclusion that management controls were not operating effectively on a consistent basis leading to a heightened risk of errors or fraud.
- Inconsistent performance of reconciliations and correction of general ledger accounts and analysis of interim operating results.

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## Conclusion

Based upon a review of financial and other documentation, interviews, and a review of FTA discussion, findings, and recommendations regarding the Brattleboro Multi-Modal project, we believe that the funding provided by the State was spent as intended on the completion of the project. We also believe that the State granting agencies performed an appropriate level of post-award follow-up, given that State funds were limited to specific construction goals (AOT) and annual support payments (ACCD).

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# Appendix I

## Cooperation Agreement, AOT and Town of Brattleboro, key excerpts

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10. Project Accounting. MUNICIPALITY will establish and maintain separate accounting for Project funds, payments, and receipts for the duration of the Agreement.

22. Retention of Records. The MUNICIPALITY will retain in its files all books, documents, papers, accounting records, and other evidence pertaining to costs incurred for work performed under the Project for a period of at least three (3) years (the retention period) from submission of the final reimbursement request. The MUNICIPALITY further agrees that the STATE, or its authorized representative shall have access to these records for purposes of review and audit during the Agreement period or as long as the records are retained. Copies of these documents shall be furnished if requested, at no cost to the STATE.

24. Audit Requirements. If the MUNICIPALITY should spend more than \$300,000 in aggregate federal funds in any single MUNICIPAL fiscal year, a certified independent audit of funds received under this agreement shall be submitted. The audit shall be done in accordance with the federal Office of Management and Budget (OMB) Circular A-133, Audits of State and Local Governments, and Non-Profit Organizations and Government Auditing Standards, 1994 Revision, and shall contain a schedule identifying the source and application of funds associated with the Project. The MUNICIPALITY shall submit one (1) copy of the audit within nine (9) months of the end of the fiscal year. Upon request, and at no cost to the STATE, audit work papers for the entire Project, or, as the STATE may require will be made available.

If the MUNICIPALITY should spend less than \$300,000 in aggregate federal funds in any single fiscal year, organization-wide financial statements and a schedule of federal financial assistance for VTrans funds only shall be submitted within nine (9) months of the end of the fiscal year. The federal financial assistance schedule will list the funds by title, Code of Federal Domestic Assistance (CFDA) number, pass-through Municipal's number, award amount, receipts, and expenditures. At the Program Manager's discretion, agreed upon procedures, related to the VTrans schedule of federal financial assistance, may be required to be performed by a certified independent audit firm.

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# Appendix II

## AOT Review of Single Audit and Financial Statement Audit Reports

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-----Original Message-----

**From:** Pollica, Mike

**Sent:** Thursday, December 21, 2006 2:44 PM

**To:** Keefe, Timothy

**Cc:** Waterman, Brian; Gallagher, Charles; Neveau, Al; 'buck.marks@fta.dot.gov'

**Subject:** Brattleboro Single Audit Reports

Tim,

Re: your email to Trini Brassard, Subject Brattleboro Project –question 1

We have single audits reports for Brattleboro on file for fiscal years 2003, 2004 and 2005. For each of these years the FTA and other federal Agencies made direct awards and we believe a federal Agency is the cognizant Agency for audit. Nevertheless, we reviewed the FY 2004 single audit submission and distributed a memo to our two primary project managers making them aware of the material weaknesses in financial statement controls and also we noted that the Town agreed to implement all of the auditor's recommendations in its corrective action plan.

We also reviewed (documented in VISION ) the FY 05 audit report which as in the Fiscal Year 2003, 2004 reports, did not find questioned costs; the independent auditor determined that there were no audit findings required to be reported under A-133, that there were no instances of material weaknesses in internal control over federal programs, that there no instances of noncompliance which are material to the financial statements and that the report on compliance with requirements applicable to major federal programs was unqualified. There are material weaknesses reported in financial statement controls and reportable conditions in internal control over federal programs for each year. The Town has agree with the auditor's recommendation in its corrective action plan responses

A management letter response to fiscal year 2005 was due 9-30-2006. FTA is reviewing the 2004 and 2005 independent auditor's single audit report. We have contacted the FTA to see about the status of the required management letter and we want to confirm the cognizant Agency when the FTA person working with this returns from holiday leave.

Thanks,

Mike

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Accounting Section  
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