

To City Council Members,
City Manager and Director of Finance
City of Bristol, Virginia

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Bristol, Virginia (the City) for the year ended June 30, 2011, and have issued our report thereon dated November 29, 2011. Our opinion on the financial statements and this report, insofar as they relate to the Bristol Virginia Utilities, a discretely presented component unit, are based solely on the report of other auditors. In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 following deficiencies in the City's internal control to be material weaknesses:

07-1 Material Weakness – Fund Deficits (Repeated from 6/30/07 audit)

Condition: The Solid Waste Disposal Fund and Clear Creek Golf Course Fund both have fund deficits.

Criteria: Proprietary funds are required to maintain positive net assets.

Effect: The Solid Waste and Clear Creek funds have received continuous advances from the General Fund resulting in significant inter-fund balances consuming almost all of the unassigned fund balance of the General Fund.

07-1 Material Weakness – Fund Deficits (Repeated from 6/30/07 audit) (Continued)

Recommendation: Management and City Council have implemented some operational changes to the Solid Waste Disposal fund during the current year in order to see an increase in operational efficiency in the next fiscal year. Also, subsequent to year end, there were additional actions taken to help decrease the deficits. Continued efforts to monitor these results and implementation of changes should be maintained to make proprietary funds self-sufficient and repay the General fund for the advances.

Management response: Management and members of City Council are aware of these proprietary funds. Effective July 1, 2011 operational changes were implemented within the Solid Waste Fund, which is anticipated to reduce expenses by approximately \$500,000. In addition during the FY 11-12 year, a major initiative will begin to capture the methane gas and sale in the energy market. Projections indicate up to \$25,000,000 over a 20 year period. The Clear Creek Golf Course Fund, effective July 1, 2011, will be transferred to the General Fund and will no longer be considered an enterprise fund.

11-1 Material Weakness – Mass Transit Grant Reporting and Documentation

Condition: During the current year, the Federal Transit Administration conducted a triennial review of the transit grants for the City. Numerous areas were noted in the review that required better documentation and more timely reporting. Most of the issues from the review were addressed and corrected by the end of August 2011. It was discovered during the fiscal year ended June 30, 2011 that operating requests for reimbursement had not been received for the fiscal years ended June 30, 2009 and 2010. These had been claimed, but the Finance Department of the City had not been provided the information and was unaware of any potential receivable from the prior year. It was further noted during the audit that even after filing these amounts, there had been no federal requests for appropriate filings of any of the quarters ending during the fiscal year ended June 30, 2011.

Criteria: The City's Transit Department is responsible for submitting timely requests for reimbursement and for maintaining proper supporting documentation for the claims, including information regarding specific requirements of the grants.

Effect: The City had paid for the operation of the transit program for the City for the 2009, 2010 and 2011 fiscal years and had not received the federal funding in a timely manner. If specific criteria of the grant, such as reimbursement requests, are not properly followed, grant funding could be at risk.

Recommendation: The Transit Department of the City should file quarterly requests for reimbursement from the State for the federal funds awarded and should maintain proper supporting documentation for the disbursements claimed. The claim should further show that the proper percentages of federal, state and local support have been calculated. In addition, the Transit Department should verify with the Finance Department to ensure all funds are received. Copies of the claim should be submitted to the Finance Department so that a centralized record can be maintained and the Finance Department can record the receivable and follow-up if funds are not

timely received. The areas noted in the triennial review should continue to be monitored to ensure that those same areas are not issues in future reviews.

Management Response: City management, including the City Manager, has reviewed this condition and has initiated the recommendations suggested by this audit. Departments and persons responsible have reviewed and established guidelines to ensure submissions and subsequent reimbursements are received in a timely fashion. Filings for all eligible expenses have been submitted, including funds for 2011 fiscal year. The Federal Transit Administration board responsible for the triennial review has been notified to include appropriate management who are responsible for administration and reporting.

In addition, we noted the following other matters involving the internal control and its operation:

Tax Anticipation Note Budget

Although the Tax Anticipation Note (TAN) is for cash flow purposes and is approved by City Council, we recommend including the note proceeds and payment in the annual budget in order for actual revenues and expenditures to better match the budget and reflect the City's intentions.

Fraud Risk Assessment

We recommend the City develop a formal fraud risk assessment and monitoring program that is appropriate for the size and complexity of the City. This program should include identifying fraud risks and taking appropriate action to reduce or eliminate the risks. Oversight and involvement within the program of the Board, if necessary, should be utilized upon the launch of such a program.

The City's written response to the material weaknesses identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, City Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Blackburn, Childers and Steagall, PLLC

BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

November 29, 2011