

December 6, 2013

To: City of Portland Finance Committee, acting as Audit Committee
Mark Rees, City Manager, City of Portland, Maine
Ellen Sanborn, Finance Director, City of Portland, Maine

City of Portland Department of Public Schools Finance Committee, acting as Audit Committee
Emmanuel Caulk, Superintendent, Portland Public Schools
Michael Wilson, Chief Financial Officer, Portland Public Schools

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Portland, Maine as of and for the year ended June 30, 2013, 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 auditing procedures that are appropriate in the circumstances 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.

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 City's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

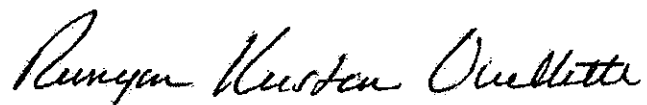
During our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. They have been identified as "Other Comments" in the attached *Schedule of Findings and Responses*.

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This communication is intended solely for the information and use of the City of Portland Finance Committee and the Department of Public Schools Finance Committee (acting as respective Audit Committees), management of the City and the Department of Public Schools, and others within the organization. It is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the cooperation and assistance we received from the officials and employees of the City of Portland, Maine, including the Department of Public Schools, during the course of our audit. We will review the status of these comments during our next audit engagement. We have already discussed these issues with various City and School personnel, and we will be pleased to discuss it in further detail at your convenience, or to assist you in implementing the recommendations.

Very truly yours,

A handwritten signature in cursive script that reads "Raymond Hudson Ouellette".

CITY OF PORTLAND, MAINE
Schedule of Findings and Responses

OTHER COMMENTS

City of Portland

Purchasing Cards

During our review of the purchasing card program for the City of Portland, we made a selection from the list of all users. From our selection of 40 employees, we noted that 6 employees did not have signed agreements maintained by the administrative secretary. To ensure proper tracking of purchasing cards, we recommend that the City review their listing of purchasing cardholders and obtain agreements from the employees who do not have one filed. This will ensure that each employee with a purchasing card has a signed agreement stating such.

Management's response: Purchasing card agreements are now kept in a 3 ring binder book. Every time a new card is issued, we notify the administrative assistant so that when the new card holder comes into the office to receive his card he/she is signing a Purchasing Card User Agreement. This agreement is filed in the book. Twice a year, we extract the cardholders' information from the Paymentnet software and compare the cardholders name to the agreements filed in the book. This will ensure that we do not miss any agreements.

Pay Rates

As part of the audit, we tested controls over the payroll process at the City of Portland. Our test included verifying employee wage rates to authorized personnel transaction forms, City policies, and union agreements. Of the 33 employees selected for testing we found 3 employees (each was a Manager of their respective department) where the wage rate exceeded the rate specified in the Non-Union personnel policy that was approved by the City Council. One of the three employees had a special merit increase which put his wage rate outside the respective Council approved pay plan. Another employee had a personnel transaction form approved by her supervisor and the human resources director which put her wage rate above the Council approved pay plan. The final employee had cost of living adjustments which put his wage rate outside of the Council approved pay plan.

We recommend that the City review its procedures and policies for determining employee wages. Any pay exceeding the Council approved pay plan should be reviewed and approved by the City Council. We also recommend that the City adjust their Non-Union pay plan to reflect cost of living adjustments.

Management's response: The Pay Plan is known by management to be out of date for two reasons:

- 1. Several years ago, at the direction of the City Council, employees were given an across the board increase while the pay plan was not similarly increased. Accordingly, a handful of employees' salaries exceeded the maximums of the pay plan. The City Council was aware that this was one of the results of increasing pay without increasing the range.*
- 2. An employee was given an increase that exceeded range maximum in order to retain the employee.*

Management has attempted to address this by bringing in a compensation consultant. Council did not adopt the consultant's recommendations. Management plans, in fiscal year 2014-2015, to update the pay structure.

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Schedule of Findings and Responses

Davis Bacon Compliance

As part of our testing of compliance with the Davis Bacon Act concerning the Airport Improvement Program, we asked the City's contracted engineer to attest to the fact that compliance with the Davis Bacon Act requirements was being completed in a timely manner. When we received the response from the engineer, we noted the review dates evidencing the engineer's review of compliance were all the same, approximately two weeks prior to us receiving the letter. The federal requirement for the Davis Bacon Act is that the certified payrolls be reviewed promptly after completion of the work. When we spoke to the engineer, he provided clarification in writing stating that the certified payrolls were reviewed within two weeks of receiving them and in accordance with their firm's policy. However, there is no formal process for documenting this review; therefore, the exact date the payrolls were reviewed was unknown. We recommend that the City follow-up with the engineer in the future to ensure that the Davis Bacon certified payrolls are being reviewed in a timely fashion.

Management's response: For all federal contracts requiring Davis Bacon Act compliance the Portland International Jetport will require its consulting engineers to provide written confirmation indicating the certified payrolls have been reviewed. The written confirmation shall be submitted to the Jetport within two weeks of receiving the certified payroll and the confirmation will be attached to each project record copy of the certified payroll.

Portland Public Schools

School Department - Purchase Order System Considerations

In testing supporting documentation for disbursements at the School Department, we noted that 16 out of the 160 disbursements tested had purchase orders that were created after receipt of the related invoice. Our testing revealed that this was commonly done for small amounts, such as employee reimbursement for classroom or meeting supplies, and less common for larger items such as student consultation services. We would suggest that the School Department review its policy with respect to purchase orders, clarifying when they are required, and whether alternatives could be considered for small purchases, such as employee reimbursements. Preparing a purchase order after an invoice has been received defeats the purpose of the purchase orders, which is having the purchase pre-approved.

Management's response: The purchasing policy was reviewed and revised, and in June 2013 (after the most of the tested purchase orders were issued) was distributed to all School employees involved in the Purchase Order process. The revised purchasing policy includes clarifying language on when Purchase Orders are required, that the Purchase Orders are generally required in advance and small dollar items do not need to go through the Purchase Order process. Although some administrators like the level of detail available from the purchase order system, we expect the use of after the fact purchase orders and purchase orders for small dollar purchases will decline in 2014.

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School Department – Credit Card Controls

The School Department has five active credit cards. Receipts are required to be submitted monthly by the users and credit card statements are reviewed prior to payment. We tested controls applicable to these credit cards, selecting a sample of 16 transactions, which represented three months of activity. We noted that one full month's worth of transactions were not accompanied by any type of invoices or receipts to support the charges. The statement was reviewed and approved without any invoices being present, documentation of the business purpose or documentation of the actual items purchased. As part of the review and approval process, management should obtain and review all credit card statements and require supporting invoices and receipts to ensure purchases were reasonable in the context of providing educational services.

Management's response: The month without receipts was August 2012 and it is not clear why the receipts were not attached to the credit card statement. The manager who approved the payment is no longer with the School District. Since August 2012, the Controller or Staff Accountant are responsible for reviewing all monthly credit card statements and ensuring that all receipts are attached. If receipts are not included initially, the cardholder is requested to provide the receipts before payment is made. We do not expect this to be an issue in Fiscal Year 2014 and subsequent years.

School Department – Activity Funds

As part of our annual audit, we selected four schools on a rotational basis and performed certain procedures with respect to the individual student activity funds. These procedures included gaining an understanding of the internal control procedures, and performing certain control and substantive testing. During this year's audit, we performed tests at the following locations: Deering High School, Casco Bay High School, Portland Arts and Technical High School (PATHS), and King Middle School. Exceptions noted were as follows:

Deering High School – Out of a sample of 40 disbursements, we found that 13 did not have an approved voucher and 6 did not have an invoice to support the disbursement. A properly designed system of internal control should be in place for processing cash disbursements. Not having an approved voucher and/or invoice to support disbursements could result in theft or fraud and not be detected in a timely fashion. We recommend that Deering High School conform to their internal control processes in the future by only approving and disbursing funds for which an approved voucher and invoice are readily available.

Casco Bay High School – Out of a selection of 40 disbursements that we chose for testing we found that 3 did not have supporting documentation. We also noted that in one instance the only supporting documentation was a hand-written note asking for reimbursement without any invoice or other receipt to support the amount requested. For the receipting process, one individual is performing all the procedures, such as taking in funds, entering information into the accounting software, and physically depositing the funds into the bank. A lack of segregation of duties allows for a greater opportunity for human error or misappropriation of funds. We recommend a separate individual take in the funds and prepare the receipt while another individual enter the deposit into the system and take it to the bank.

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Management's response:

Deering High School - We have begun internal audits of activity funds and have provided training to staff involved with activity funds where necessary. We will emphasize the importance of retaining invoices with Deering High School administration. During Finance's next annual review of the Deering High School activity fund we will review the procedures and filing approach for activity fund disbursements in detail. It should be noted that during the year Deering High School staff assumed the responsibility for bookkeeping for the Booster funds and moved from a paper based ledger card system to QuickBooks for tracking and monitoring transactions in both the Activity Fund and Booster accounts. These important initiatives were carried out by existing staff and may have contributed to less than normal diligence around filing and retaining invoices in support of Deering High School activity fund disbursements.

Casco Bay High School - We will emphasize the importance of retaining invoices with Casco Bay High School administration. During Finance's next annual review of the Casco Bay High School activity fund we will review the procedures and filing approach for activity fund disbursements in detail. Regarding the lack of segregation of duties; this recommendation may be hard to implement due to the limited number of office staff at Casco Bay High School. Many times, there is only one person in the Casco Bay High School office. Finance will review this recommendation with Casco Bay High School administrative staff and determine if there is a practical way to implement the proper control procedures without incurring additional costs.