

December 16, 2014

To: City of Portland Finance Committee, acting as Audit Committee
Sheila Hill-Christian, Acting City Manager, City of Portland, Maine
Suzanne Knight, Acting Finance Director, City of Portland, Maine

Portland Board of Public Education Finance Committee, acting as Audit Committee
Emmanuel Caulk, Superintendent, Portland Public Schools
Ellen Sanborn, 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, 2014, 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 to be 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*.

The City of Portland, Maine's responses to the other comments identified in our audit are described in the accompanying schedule of comments. The City of Portland, Maine's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

City of Portland, Maine
December 16, 2014

This communication is intended solely for the information and use of the City of Portland Finance Committee and the Board of Public Education 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 Board of Public Education, 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 black ink that reads "Ryan Hudson Ouellette". The signature is written in a cursive style with a large initial 'R'.

CITY OF PORTLAND, MAINE
Schedule of Findings and Responses
June 30, 2014

OTHER COMMENTS

City of Portland

Purchasing Cards – Expenditure Testing

In our review of expenditures related to purchases made with purchasing cards issued to City employees, we selected two departments, Public Health and Jetport, to review purchasing card expenditures and ensure purchases were valid, reasonable, properly coded and approved. We selected two months, October 2013 and February 2014, and reviewed all expenditures for all employees that were issued a purchasing card. There were no exceptions noted for purchases made with Public Health purchasing cards. All purchases had proper supporting documentation, were properly coded and approved, and had a reasonable business purpose. However, we noted eight instances at the Jetport in which individual receipts were not properly coded. Coding individual receipts ensures that expenditures are charged to the correct budget line. We also noted five instances in which the individual receipt was not approved via signature. Further, there was no coding or approval on the actual monthly statement to mitigate any un-coded or unapproved purchases. We recommend that all receipts are individually coded and approved and the monthly statement be reviewed and approved via signature.

Management's response: The City agrees with this finding and will have all purchasing card receipts coded and approved; monthly statements will be reviewed and approved by the Finance office.

Dual Signatures

Our testing over cash disbursements revealed several instances where payments greater than \$5,000 did not have the necessary second signature on the check. The City's disbursement policy requires a second signature on checks greater than \$5,000 as part of their control procedures designed to deter fraud and error. This practice is a useful tool and we recommend that the City ensure that these second signatures are obtained prior to vendor payment.

Management's response: Within the last 18 months the Treasury account signers have all been replaced, and knowledge of the dual signature practice was not conveyed to the new staff. The lack of a second signature was discovered within the Finance Division and immediately addressed. The dual control check signing policy has since been communicated to Treasury account signers to disseminate knowledge of the policy. The importance of this function for manually created checks was emphasized and acknowledged.

CITY OF PORTLAND, MAINE
Schedule of Findings and Responses, Continued

Portland Public Schools

School Department - Purchase Order System considerations (Repeat from 2013)

In testing supporting documentation for disbursements at the School Department, we noted that in some instances, purchase orders are actually 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 commonly for larger items. We recommend that the School Department reassess its policy with respect to purchase orders, clarifying when they are necessary, and whether alternatives could be considered for smaller purchases. Preparing a purchase order after an invoice has been received defeats the purpose of having the purchase order in the first place and administratively creates unnecessary work.

Management's response: School Department management will reinforce, with the applicable staff, the importance of preparing purchase orders before committing the School Department to the obligation. In addition, we will be implementing a purchasing card system for small dollar purchases (similar to the purchasing card program used by the City).

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 High School, and Lincoln Middle School. Areas for improvement related to this testing are as follows:

Deering High School – During our testing of cash disbursements, we noted six of forty transactions tested in which the disbursement voucher was not approved. We also noted four of forty transactions tested in which the invoice/receipt was missing from the supporting documentation. During our testing of cash receipts we noted thirteen of thirty-two transactions tested in which the money report form was not approved, one instance in which the money report form was not present, and one instance in which the deposit slip was not present. We recommend that Deering High School adopt the policies and procedures set forth by the Central Office regarding cash transactions for student activity funds. Personnel should be properly trained and equipped to implement such policies and procedures.

Management's response: The Principal and Athletic/Co-Curricula Director met with the Activity Account Manager to review the audit findings and the policies and procedures established by the Central Office for student activity funds. Going forward, proper documentation will be required in support of all disbursements and all disbursement vouchers must be approved by an appropriate school administrator. Training on QuickBooks will continue and the school will perform periodic self-audits to ensure that policies and procedures are being followed.

Portland High School – During testing of the cash receipting process, we noted an area in which controls can be strengthened in order to ensure the correct amount of funds collected are deposited into a financial institution and to the correct activity fund. Currently, activity advisors collect funds from various sources and give those funds to the secretary to be deposited. The secretary takes in funds from multiple activity funds each day and it is not always evident which advisor the deposit came from or how to allocate the deposit to the various activity funds. Using a deposit voucher where the advisor must fill out the date, amount, activity fund, and sign their name to confirm the amount to be deposited would help ensure all funds collected reach the financial institution and that the correct activity fund is credited.

CITY OF PORTLAND, MAINE
Schedule of Findings and Responses, Continued

Portland Public Schools, Continued

We supplied the secretary with a sample deposit form to be distributed to all activity fund advisors. We recommend implementing the use of these deposit vouchers to strengthen internal controls surrounding the cash receipting process.

Management's response: The sample deposit form was first reviewed with Central Office finance staff and then put into use for activity advisors to use in support of funds turned over to the Activity Account manager for deposit and bookkeeping.