

November 16, 2012

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 (the City) as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Portland, Maine's internal control over financial reporting (internal control) as a basis for designing our 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.

Our consideration of the 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

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 administration. 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 Comments, Continued

City of Portland

Gift Cards

During our review of the purchasing card activity at various City departments, we noted that there were many gift cards obtained using the City's purchasing cards. We obtained explanations from the various departments from which we determined the intended use of the gift cards. Currently, the City does not have a formal policy regarding the purchase and distribution of gift cards. Gift cards represent a high risk area for any municipality because there is no effective way to be absolutely sure that the gift cards make their way to the intended users. We recommend that the City develop a gift card policy stating the specific individuals who are allowed to purchase gift cards and the specific intended use of the gift cards. We also recommend that the City develop a policy on the distribution of gift cards, which would track gift cards purchased and distributed, which could then be audited by the finance department periodically.

Management's response: We have informal policies in the departments that use gift cards for various purposes, but will consolidate those into a written document.

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 and reviewed the files to ensure purchasing card agreements were maintained for each employee selected. From our selection of 46 employees, we noted that 4 employees did not have signed agreements. To ensure proper tracking of purchasing cards, we recommend that the City review their listing of purchasing card holders and obtain signed agreements for each holder. This will ensure that each employee is educated as to the appropriate use of the City purchasing card and will also allow the City to better track employees who are currently using their purchasing cards.

Management's response: We have secured the four missing agreements from the employees.

Community Development Block Grant Drawdowns

As part of our compliance testing, we found that that the City did a "catch-up" drawdown during the year, requesting funds from projects as far back as 2006. The City should be drawing down funds when expenditures occur on a predetermined basis (i.e., monthly). All funds spent within that time period should be drawn down in the next drawdown request. Delaying the requests for reimbursing funds could possibly cause the City to lose availability of grant funds. We recommend that the City draw funds on a monthly basis, and that they draw all funds that were spent in that period. This would eliminate the need to do a "catch-up" drawdown.

Management's response: The City's CDBG program has a set of policies and procedures in place for IDIS drawdowns that state that drawdowns should occur in the same time period as the expense occurs. This procedure will be reiterated to the staff doing the drawdowns. The City will also create a system where the budgeted amounts listed in the IDIS system are confirmed by managers after they are entered on an annual basis. In addition, the City's Planning and Urban Development and Finance Departments are reviewing the overall structure of how Community Development Block Grant funds are managed in order to create a closer relationship between the Finance Department and the financial staff managing the CDBG program. The goal of this examination will be to create adequate controls to ensure reconciliation, accuracy and timely drawdowns.

CITY OF PORTLAND, MAINE
Schedule of Comments, Continued

Portland Public Schools

Long Outstanding Checks

In our review of cash accounts and their related reconciliations, we found many checks outstanding which were over a year old; some of which even dated back to 1999. These checks were found in the following accounts:

- School payroll
- School vendors

The amount of the outstanding checks is immaterial; however, the City should review the outstanding checks list routinely to identify such long outstanding items and should make efforts to pay the intended recipient and remove the long outstanding checks from the list. We recommend that the City obtain and review the State of Maine laws governing unclaimed property and implement policies and procedures to ensure that the City is in compliance.

Management's response: We have reviewed and researched all outstanding checks dated January 1, 2011 through December 31, 2011 for accounts payable. We have not had a payroll manager since December 2011, and therefore, we have had limited resources available to research the outstanding payroll checks. We expect to have a payroll manager hired by November 2012, whom we will have assist with the research of outstanding payroll checks.

Further, we will continue to make sure we have the most updated outstanding checks list from the City, as the City does the bank reconciliations and provides the School with outstanding checks lists monthly. We will continue to review and research all stale-dated checks. With the City's assistance where necessary, stale-dated checks will be turned over to the State of Maine as unclaimed property if the intended recipient cannot be located and the payment is valid. We also understand the City has a formal written policy in this area, which the School will use as guidance.

Activity Funds at Various School Locations

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, Portland High School, Portland Arts and Technical High School (PATHS), and Lyman Moore Middle School. Results are as follows:

Deering High School – We found that documentation for both cash disbursements and cash receipts was disorganized and many times the documentation could not be located. In addition, when vouchers were used for cash disbursements they were often incomplete or lacking the proper authorization.

Portland High School – Controls over cash disbursements and cash receipts were properly designed and implemented.

PATHS - Controls over cash disbursements were properly designed and implemented. Controls over cash receipts were properly designed, however, it was difficult to reconcile individual receipts to deposits as neither check numbers nor the receipt numbers were listed on the deposit ticket.

CITY OF PORTLAND, MAINE
Schedule of Comments, Continued

Activity Funds at Various School Locations, continued

Lyman Moore Middle School - Controls over cash disbursements were properly designed and implemented. Controls over cash receipts were properly designed, however, it was difficult to reconcile individual receipts to deposits as receipts were entered into QuickBooks as batches and there was no documentation available to describe what receipts made up each batch.

We noted that the Department has made improvements which include the adoption of a system wide policy for internal controls and record-keeping for activity funds, as well as instituting a practice of internal audits, in which central office personnel periodically visit and test internal controls at the various activity fund locations. We commend the Department for these efforts. If problems continue to persist at individual locations, additional oversight and training may be necessary.

In addition to the above, we noted two instances (Deering activity fund account and Adult community education) in which the account bank statements being received had cut off dates other than at month end. We recommend that in these cases, the fund administrators contact the banking institutions and request specifically a month end statement. This becomes especially important in trying to gather information at year end for reporting in the City's comprehensive annual financial report.

Management's response: *As noted by the auditors, the Finance Department implemented a system-wide internal control and record-keeping procedures for activity funds toward the latter part of FY2011. We require these procedures to be followed.*

To ensure compliance with these procedures, in FY2012, the Finance Department conducted internal audits at all locations with activity funds. The control environments for the activity funds held at each School were documented by sampling a variety of transactions and reports. The Finance Department made recommendations for improvements and trained personnel where necessary. The Finance Department will continue these efforts, providing additional oversight and training where necessary.

Over the past year, month-end bank statements were requested and received for almost all of the activity funds. We will look into obtaining month-end bank statements for the remaining two activity fund accounts.

School Department - Purchase Order System considerations

In testing backup 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 occurred for larger items such as student consultation services. We would suggest that the School Department reconsider its policy with respect to Purchase Orders, clarifying when they are necessary, 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 having the purchase order in the first place, that being having the purchase pre-approved, and administratively creates unnecessary work.

Management's response: *The Finance Department intends to review the purchasing system procedures and revise those procedures where necessary. Among other things, we plan to clarify when purchase orders are necessary and to consider alternatives for small purchases and thereby eliminate any unnecessary work.*

CITY OF PORTLAND, MAINE
Schedule of Comments, Continued

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 30 transactions which represented three months of activity. We noted that two of the charges tested were not supported by an invoice or receipt. In addition, one of the monthly statements did not appear to be reviewed prior to payment. As part of the review and approval process, management should obtain and review all credit card statements and require supporting receipts to ensure purchases were reasonable in the context of providing educational services.

Management's response: The Finance Department will continue to ensure that part of the review and approval process includes obtaining and reviewing all credit card statements and requiring supporting receipts to make sure purchases are reasonable in the context of providing educational services.