

December 18, 2015

To: City of Portland Finance Committee, acting as Audit Committee
Jon Jennings, City Manager, City of Portland, Maine
Brendan O'Connell, Finance Director, City of Portland, Maine

Portland Board of Public Education Finance Committee, acting as Audit Committee
Jeanne Crocker, Interim 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, 2015, 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.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 consider the deficiency in internal control listed as item 2015-001 in the attached *Schedule of Findings and Responses* to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we also 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*.

City of Portland, Maine
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The City of Portland, Maine's responses to the material weakness and other comments identified in our audit are described in the accompanying *Schedule of Findings and Responses*. 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.

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, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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.

Very truly yours,

A handwritten signature in cursive script, reading "Raymond Weston Ouellette".

CITY OF PORTLAND, MAINE
Schedule of Findings and Responses

MATERIAL WEAKNESS

2015-001 Identification of Federal Programs

During the 2015 audit, we identified a federal program which had not been included on the schedule of expenditures of federal awards for the years ended June 30, 2011, June 30, 2012, June 30, 2013, and June 30, 2014. The amounts related to this federal program were significant enough to require the program to be considered a major program under the federal single audit guidelines. The City generally accounts for most grants in fund 241, but there are a several grants that are accounted for or comingled in several other funds. We recommend that the City of Portland develop a system for tracking federal programs outside of fund 241 in order to ensure accurate identification and reporting of federal grants.

Management's response: We concur with the finding. The City is currently involved in a number of changes in administering grants. These include a more rigorous review/approval process of new grant opportunities. Additionally, we have increased central oversight of grant funding. These include a secondary review of grant agreements to determine that the funding source is accurately being identified and recorded in our accounting system. Also, City departments receive monthly reports, that have been centrally reviewed, that summarize the status of all active grants for which they have primary and programmatic oversight. We also plan to review the source and use of all of the City's funds in order to identify and additional previously unidentified federal funds.

OTHER COMMENTS

City of Portland

Jetport Accounts Receivable

During our testing of accounts receivables, it was noted that the receivables for the Jetport are not reconciled on a routine basis. Management will adjust the Jetport receivables at year-end prior to the audit, but during the year, there is no process in place to reconcile the amounts recorded on the general ledger to the actual outstanding amounts due. Historically, the Jetport has had several million dollars of receivables due from commercial customers and from federal funding sources at year-end. Given the material nature of receivables and the volume of activity processed through general ledger accounts during the year, the risk of fraud or error is increased. We recommend monthly reconciliations of receivables aging reports to the related general ledger accounts to identify variances and inaccuracies in a more timely manner. Such reconciliations would reduce the work and large adjustments required at year-end and also reduce the risk of fraud and error.

Management's response: The Jetport is in agreement with this finding, and the Jetport's Financial Officer will begin running aging reports at the end of each month in order to perform routine reconciliations of outstanding receivables.

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

Portland Public Schools

School Nutrition Inventory

During our observation of the School Nutrition inventory, we noted five exceptions where quantities counted did not agree to quantities listed. Additionally, we noted three items where the prices listed did not agree to the prices per vendor invoices. The resulting variance in the value of recorded inventory was immaterial, but we recommend that the School Nutrition Director consider alternative measures for tracking and recording inventory. The current process is labor intensive and does not always provide an accurate view of items on hand at any given time. Given the size of the Portland Public Schools School Nutrition program, we recommend the use of specialized software and routine cycle counts to minimize the variances in recorded inventory. This software and the adoption of cycle counts would help eliminate errors and reduce the time invested in what is currently a cumbersome and error prone process.

Management's response: With the hiring of a new Food Services Director in November of 2015, we will be looking at overall inventory management to make improvements. Recommendations will be implemented over the next few months in order to be in place for the FY16 inventory process.

Purchase Order System Considerations (Repeat from 2014)

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 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 reduces the effectiveness of the controls over the purchasing process.

Management's response: For the smaller dollar items where the PO was completed after the fact, the department manager(s) often like to have the transaction in the PO system to capture the various details of the purchase that would not otherwise be captured when paying a vendor invoice. We will reiterate the importance of completing purchase orders in advance of actually purchasing an item or committing the District to a purchase. In addition, there are two initiatives under way that should reduce the use of after the fact PO's. One, the District has expanded the use of a District Purchasing Card program for employees to use for purchases less than \$1,000 that do not require a Purchase Order; this Purchasing Card program is a web-based application that allows for electronic review/approval of transactions and the uploading of transaction receipts. Second, the District will be implementing a new feature of our upgraded financial system that allows for electronic routing of requisitions for approvals which will lead to faster turnaround for producing/releasing fully approved PO's.

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

Activity Funds

As part of our annual audit, we selected three schools on a rotational basis and performed certain procedures with respect to the individual school's 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, Lyman Moore Middle School, and Portland High School. Results are as follows:

Deering High School – During our testing of cash disbursements, we noted 3 of 40 items tested where the disbursement voucher was not approved. During our testing of cash receipts, we noted that all 16 of the money report forms tested were not dated appropriately. The money report forms should be dated the same day that funds are collected. This procedure will allow for more accurate tracking of funds and aid in reconciling discrepancies, should they arise.

Management's response: The current policies and procedures were reviewed with the Activity Fund account manager and it was emphasized that all disbursements must be approved prior to payment and that all money reports must be dated and approved by a school administrator. Deering High School will perform periodic "self-audits" to determine that all policies and procedures are being followed.

Lyman Moore Middle School – Our testing over cash disbursements revealed 2 of 40 items tested were missing the appropriate supporting documentation. Additionally, we found one disbursement approval form which was not completed properly. During our testing of cash receipts, we noted 2 of 40 items tested in which the money received form was not completed properly. Also, 13 of the 40 deposits tested were not deposited in a timely manner. Some funds were held as long as 56 days. Ideally, funds should be deposited the same day they are collected to minimize the risk of fraud or misappropriation.

Management's response: A memo was sent to all staff with a reminder that approval signatures and receipts are required for all activity fund disbursements and the lead secretary will be responsible for making sure all documentation is in order before processing the disbursement request. The memo also outlined cash receipt procedures including properly completing the existing money deposit form and the requirement of deposits made at least weekly, or same day if funds are greater than \$100.