

February 6, 2017

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
Xavier Botana, Superintendent, Portland Public Schools
Alicia Gardiner, Executive Director of Budget and Finance, 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, 2016, 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*.

City of Portland, Maine
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The City of Portland, Maine's responses to the 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 School Department, 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 that reads "Remya Weston Ouellette".

CITY OF PORTLAND, MAINE
Schedule of Findings and Responses
June 30, 2016

OTHER COMMENTS

City of Portland

Public Health Department Purchasing Card

In our testing over purchasing card transactions in the Public Health Department, we noted that ten of the twenty transactions selected for testing had purchase approval forms that were not completed in their entirety. The purchase approval forms indicate that approval of a Supervisor and the Division Director is required; however, there were five instances where only a Supervisor approved the transaction and another five instances where only the Division Director approved the transaction. We recommend that the department obtain both approvals for all purchases or consider amending their policy and the related forms to require only one approval.

Management's response: We concur with the finding. The Public Health Division has additional procedures above and beyond the general purchasing card procedures for all City employees. Management will work with the Public Health Division to ensure that they are following their purchasing card procedures in all instances.

Cash Receipts and Deposits – Treasury

During the year, the City altered the deposit process and reduced the frequency of deposits made. The new process requires that deposits are made weekly. One result of the change in the deposit process was the amount of cash and coin held in the vault at the City. Our testing revealed that there were many instances where amounts exceeding \$50,000 were held in the vault for periods of up to a week. During certain times of the year (i.e., tax collection due dates) amounts held in the vault exceeded \$100,000. We recommend that the City review its deposit process to increase the frequency of deposits, especially during known high volume periods. Ideally, to reduce the risk of fraud or error, deposits would be made within forty-eight hours.

Management's response: We concur with this finding. Management will increase frequency of deposits during high volume periods by increasing pickup service by the armored car to multiple times per week.

Fuel Purchasing Cards – Fleet

Our testing of the fuel cards used in the Fleet department revealed that five of fifty employees tested did not have signed purchasing card user agreements. We recommend that prior to authorization of use of City purchasing cards the employees are trained in proper practices and return a signed user agreement. We also noted the lack of a cancellation process for lost fuel cards, and removal of authorization for terminated employees. We recommend that a process be implemented to immediately remove authorization of employees whose employment with the City has ended, in addition to a process to immediately cancel cards that have been lost or stolen.

It was also noted that the odometer readings in the system, which are used to verify the validity of fuel purchases, are not always accurate. We recommend the employment of a system that ensures data accuracy for the odometer readings and variances, if any, are accompanied by explanation and documentation.

Management's response: We concur with this finding. This program was new this year and current policies will be reviewed. A letter will be sent to the Fleet department outlining procedures to be followed to include cancellation of card process, obtaining signed agreement before a card is issued and recording odometer readings accurately.

CITY OF PORTLAND, MAINE
Schedule of Findings and Responses, Continued
June 30, 2016

Supplemental Nutrition Assistance Program

In conjunction with our testing of compliance requirements, we tested forty cash disbursements from the Supplemental Nutrition Assistance Program (SNAP). Of the forty transactions tested, there were three instances where invoices could not be located and nineteen credit card transactions where approval was not documented. We recommend that invoices or other supporting documentation be kept on file for all purchases. Additionally, all purchases, even credit card transactions, should be reviewed and approved prior to payment.

Management's response: We concur with this finding. Management will work with the department to amend their policy and develop appropriate forms for the approval level needed for credit card transactions. A letter will be sent to the department head requiring all invoices and supporting documentation be kept on file for all purchases with the appropriate approval attached.

Portland Public Schools

School Nutrition Program Cash Receipts

As part of our annual audit, we selected forty school nutrition program cash receipts for testing. Our testing revealed that sixteen of the items tested had no review or approval of cash counts during the daily cash-out and deposit process. We recommend a dual count procedure to reduce the risk of error and to ensure that no one employee can manipulate the daily cash-out reports and the deposits. We also noted three instances where deposits were not made in a timely manner. We recommend that funds collected are deposited within forty-eight hours to minimize the risk of misuse or errors.

Management's response: We concur with this finding. A letter will be sent to the School Finance Director to implement dual controls over the daily cash out and deposit process. We will include requiring deposits be made within forty-eight hours to minimize risk of misuse of funds.

Activity Funds

As part of our annual audit, we selected five 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, Lyman Moore Middle School, Portland High School, PATHS, and King Middle School. Results are as follows:

Deering High School – During our testing of forty cash disbursements we noted four instances in which the disbursement voucher was not approved by both the activity advisor and the custodian of the account. We also could not locate three invoices for purchases that were selected for testing. We recommend that voucher forms and invoices accompany all purchases to document the management review and approval of items purchased. During our testing of forty cash receipts transactions, we noted twenty instances in which the money report form was not completed appropriately and another four instances in which the form could not be located. The money report forms should be dated the same day that funds are collected and signed by the individual collecting the funds. Additionally, we found it difficult to reconcile deposits to individual receipts. All deposits should be accompanied by supporting documentation that summarizes and illustrates the date, amount, and purpose of funds collected. These recommended procedures will allow for more accurate tracking of funds and aid in reconciling discrepancies, should they arise.

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Schedule of Findings and Responses, Continued
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Lyman Moore Middle School – Our testing over cash disbursements revealed six out of forty items tested where supporting documentation could not be located. Additionally, we found one disbursement approval form which was not completed properly. Every disbursement should have an approval form and a related invoice to document the rationality of the purchase. During our testing of cash receipts, we noted eight instances in our sample in which the money received form was not available. Also, four of the forty deposits tested were not deposited in a timely manner. Some funds were held as long as seventy-four days. We recommend that funds collected are deposited within forty-eight hours to minimize the risk of misuse or errors. Additionally, all collections should be documented by a receipt form which should include lines for the activity advisor signature and also the secretary's signature (to document verification and agreement of funds received).

Portland High School – Our test of controls over cash receipts found four deposits out of forty tested which were not deposited timely. We recommend that funds collected are deposited within forty-eight hours to minimize the risk of misuse or errors.

PATHS – Controls over cash disbursements were properly designed and implemented. There was only one exception found in our sample of forty items tested where a voucher was present, but not approved. Another item was missing an invoice. These were deemed isolated incidents. In our test of controls over cash receipts, we found three of thirty-four deposits which were not deposited timely. We recommend that funds collected are deposited within forty-eight hours to minimize the risk of misuse or errors. Additionally we found one receipt was lacking supporting documentation; this was deemed an isolated incident.

King Middle School – Controls over cash disbursements were properly designed and implemented. There was only one exception of forty transactions tested where an invoice could not be located. This is deemed an isolated incident. In our test of controls over cash receipts, we found nine of forty deposits tested were not deposited timely. We recommend that funds collected are deposited within forty-eight hours to minimize the risk of misuse or errors.

During our testing, we also noted several booster clubs utilizing the School Department's tax identification number. These clubs are not school governed organizations and should not be utilizing the School Department's tax identification number. We recommend that the School Department make an effort to remove these unauthorized accounts.

Management's response: A meeting will be scheduled with the School Finance Director and Superintendent, both of whom are new to the City of Portland. Current policies and procedures will be reviewed for school activity funds and emphasis will be placed on documentation support, approval, making timely deposits and dating of all reports. Additionally, the School Finance Director will be notified to contact all booster clubs notifying them they should not be utilizing the School's tax identification number.