

February 12, 2018

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, 2017, 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 audit 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 subjected 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, reading "Raymond Hudson Ouellette".

**CITY OF PORTLAND, MAINE**  
**Schedule of Findings and Responses**  
**June 30, 2017**

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**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 six of the twelve 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, in the six instances noted, only a Supervisor 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 Response: Finance Department accounting staff will review the internal policies and procedures in the Public Health Department to determine whether any revisions to the approval process are necessary, and will recommend changes to the department's purchase approval forms based on that review.*

*Anticipated Completion Date: March 1, 2018*

**Fuel Purchasing Cards – Fleet**

Our testing of the fuel cards used in the Fleet department revealed that one of ten 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.

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, should be accompanied by explanation and documentation.

*Management Response: Finance Department accounting staff will review the procedures followed by the Fleet department prior to issuing purchasing cards and will periodically check that a signed purchasing card user agreement is on file for each employee with a fuel card. In those instances where no agreement is on file, the employee's card will be suspended until the employee is properly trained and returns a signed user agreement.*

*Finance department staff will perform random checks of odometer readings entered into the system and will issue warnings for inaccurate readings. Multiple warnings for inaccurate odometer readings will result in suspension of individual fuel cards.*

*Anticipated Completion Date: March 1, 2018*

**Journal Entry Review**

Our review of journal entries throughout our test work revealed that certain journal entries may be posted to the general ledger without adequate review and approval. The Controller and Deputy Finance Director are primarily responsible for posting entries to the general ledger and also have the responsibility for approving entries. There was a period of time in which the Controller's position was vacant and entries were posted without a review. While we found no evidence of fraudulent activity, the possibility of fraud or error still exists. In order to minimize these risks and ensure that controls are not bypassed, we suggest the City develop a contingency plan for when certain management personnel are unavailable.

**CITY OF PORTLAND, MAINE**  
**Schedule of Findings and Responses, Continued**  
**June 30, 2017**

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*Management Response: Journal entries have been reviewed since both the Deputy Finance Director and Controller positions were filled. To prevent this situation from recurring in the future, the Finance Director will review and approve journal entries prior to posting should an extended absence or vacancy occur in either of these positions.*

Anticipated Completion Date: January 1, 2018

**Infrastructure Contributions - Release of Funds Approval**

In reviewing documentation for transfers of funds, we found that the standard forms used by the City were often lacking signed approvals. After further inquiry, City staff was able to produce emails showing informal approval for fund transfers. We suggest that the City utilize the forms available and document approval in one location. Maintenance of electronic approval via the email server is not an ideal situation as files are not accessible by all personnel and may not be properly archived.

*Management Response: Finance Department accounting staff will review the procedures and forms used to authorize the release of funds to ensure that formal, written approvals are properly secured and archived.*

Anticipated Completion Date: March 1, 2018

**Year-end Adjustments and the Role of Internal Audit**

Each year-end, City management reviews thousands of accounts and posts hundreds of entries to prepare the financial system for year-end reporting. In the last two years, due to significant turnover within the Finance Department, there was a larger volume of adjustments, some of which were material to the financial statements, which were necessary to reconcile accounting records to documentation. Such additional entries could have been avoided if a system of monthly reviews and checks had been implemented. These monthly reviews and checks could have been performed by internal audit personnel. Internal auditing has a key role to play in effective management systems.

The City of Portland has many complex transactions and decentralized areas that record financial information. An internal audit function could include periodic reviews of all departments within the City, including the School Department. Some of the processes performed by an internal audit staff could include testing of transactions pertaining to cash receipting, payroll, accounts payable, social service expenditures, reimbursement of expenditures to employees, etc. Additionally, with the complexity of State and Federal laws and regulations continuing to increase, an internal audit staff could routinely evaluate compliance with grant terms and restrictions. We suggest that the City consider creating and implementing an internal audit function to aid in identifying and reconciling issues before significant time passes and key information is lost, and performing periodic reviews of transactions within all departments of the City.

*Management Response: There has been a larger volume of adjustments at the close of the last two fiscal years due to significant turnover, and the Finance Department is now fully staffed in those areas involved with year-end reconciliations and reporting. However, we agree that the decentralized nature of financial recordkeeping and the increasing complexity of financial transactions support the addition of an internal audit function, which has been included in the Department's FY2019 budget proposal.*

Anticipated Completion Date: July 1, 2018

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Schedule of Findings and Responses, Continued  
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**Portland Public Schools**

**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, Lyman Moore Middle School, Portland High School, and Casco Bay High School. Results are as follows:

***Deering High School*** – In our test of controls over cash disbursements, we found that on at least one occasion, funds were collected from students to reimburse teacher out-of-pocket expenses during a field trip. These funds were not processed through the student activity account. In order to achieve transparency and ensure proper use of funds, we recommend that any funds collected be documented and deposited in accordance with established procedures. In our test of controls over cash receipts, we found several deposits which were not deposited in a timely manner. We recommend that funds collected are deposited within forty-eight hours to minimize the risk of misuse or errors. Additionally, we found certain instances where deposit report forms were not reviewed and approved. We recommend that all forms be reviewed and approved to ensure accurate reporting and to deter potential misuse.

***Lyman Moore Middle School*** – No issues were noted in our testing of controls over cash receipts and cash disbursements.

***Portland High School*** – Controls over cash disbursements were properly designed and implemented. There was only one exception noted during testing where an invoice could not be located. This is deemed an isolated incident. In our test of controls over cash receipts, we found only one deposit of the forty tested which was not deposited in a timely manner. This was deemed an isolated incident and not an enduring issue.

***Casco Bay High School*** – Controls over cash disbursements were properly designed and implemented. There was only one exception noted during testing where an invoice could not be located. This was deemed an isolated incident. In our test of controls over cash receipts, we found several deposits which were not deposited in a timely manner. 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.

During our testing related to school activity funds, we found several transactions that were not related to student groups. Transactions for fees and other costs that are not related to a specific student group should be processed through the central office to ensure such transactions are subject to proper review and approval and are accounted for in the appropriate budget line. We recommend that the School Department clarify procedures and educate staff so that all purchases for goods or supplies are processed in the appropriate fashion.

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*Management Response: We will send a reminder to all Schools that Activity Fund transactions should follow established procedures and any funds received should be deposited within 48 hours of receipt. These matters will also be reinforced during the on-site reviews of the Activity Funds periodically conducted by the School Finance Department.*

*The Booster Clubs have opened new accounts under their own tax identification number.*

*Anticipated Completion Date: June 30, 2018*

**School Nutrition Program Cash Receipts**

As part of our annual audit, we selected forty school nutrition program cash receipts for testing. Although our testing revealed improvement over the prior year, there still were significant cash receipts that had no review or approval of 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 recommend that funds collected are deposited within forty-eight hours to minimize the risk of misuse or errors.

*Management Response: The Food Service team has implemented dual cash count procedures at each school and will make every effort to deposit funds within 48 hours of receipt.*

*Anticipated Completion Date: June 30, 2018*

**Purchasing Cards**

As part of our annual audit, we selected fifty school purchasing card transactions for testing. Our testing revealed that the school often paid sales tax on purchases. As a qualified exempt organization, the school should avoid paying sales tax whenever possible and should educate cardholders of the proper procedures to ensure no unnecessary taxes or fees are incurred. We recommend that management review all purchases for potential savings prior to payment.

*Management Response: All Card holders will be reminded that sales tax should not be paid on purchases made with the Purchasing Card. The School Departments' tax exempt number is on the back of all Purchasing Cards and can be provided to vendors who require it. If the purchase was made through an on-line vendor, the Purchaser should contact the vendor to request a refund of the sales tax paid.*

*Anticipated Completion Date: June 30, 2018*