

February 25, 2019

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, 2018, 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.

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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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.

A significant deficiency is a deficiency, or a 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. We consider the deficiencies in internal control (2018-001 and 2018-002) to be significant deficiencies.

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 significant deficiencies 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 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 School Department, 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,



CITY OF PORTLAND, MAINE
Schedule of Findings and Responses
June 30, 2018

SIGNIFICANT DEFICIENCIES

2018-001 – Cash and Investment Reconciliations

Cash and investment reconciliations are an important part of financial planning. These reconciliations are important in understanding the cash flows of the City and for ensuring the availability of liquid cash for City operations. Ideally, these reconciliations are performed at the close of each month and necessary adjustments and reconciling items are posted to the general ledger in a timely manner. During our audit testing, we found that material adjustments to reconcile the June pooled cash and investment accounts and consolidated rep payee account were not posted until September or later. Had these adjustments been posted in a timely manner, it would have significantly altered financial reporting and potentially changed management decisions regarding operations.

We suggest that reconciliations of all cash and investment accounts be performed monthly with all necessary adjustments posted to the general ledger by the close of the subsequent month to ensure that crucial management decisions are based on accurate information.

Management Response: While the City completes cash reconciliations on a monthly basis, and uses other measurements and procedures to determine the appropriate timing of cash flows and investments, we agree that the reconciliation of accounts in the pooled cash fund must be completed on a timely basis. With the assistance of our auditors, we have begun regular reconciliations of the general ledger accounts in the pooled cash fund to individual bank account balances.

Anticipated Completion Date: February 1, 2019

We have reviewed the reconciliation procedures for the Rep Payee bank account and we believe that monthly cash reconciliations have been properly performed. However, the computer system used to facilitate the reconciliation process does not retain the necessary backup data from month to month and staff had neglected to save this documentation with monthly reconciliations. Formal reconciliations are now submitted to the Controller on a monthly basis.

Anticipated Completion Date: December 1, 2018

2018-002 – Routine General Ledger Review - School Department

To ensure the accuracy of recorded transactions, periodic reviews and/or reconciliations of general ledger balances must be performed. Our audit testing revealed that such procedures were not routinely performed during the majority of the year. We believe that the following procedures should be performed on a monthly basis:

- Reconciliation of the detailed listing of accounts receivable to the general ledger balances
- Reconciliation of the detailed listing of accounts payable to the general ledger balances
- Determination of the accuracy of the withholding accounts recorded on the general ledger to subsequent payroll tax returns and other reports
- Analytical review of each revenue account to identify misclassifications or errors
- Analytical review of expenditures to identify misclassifications or errors

A monthly check off sheet controlled by the Finance Department would be a good means of ensuring that each of these procedures is performed on schedule each month.

CITY OF PORTLAND, MAINE
Schedule of Findings and Responses, Continued
June 30, 2018

Management Response: During FY2018, there were multiple finance staff on leaves of absence, there was a vacancy in the Finance Specialist position, and the Controller retired in April 2018. The level of review and analysis was not as consistent as it had been in prior years due to the staffing levels.

We have created monthly checklists to ensure we are reviewing accounts receivable and accounts payable balances regularly along with detailed review of the associated revenue and expenditure accounts.

Anticipated Completion Date: January 1, 2019

Oversight of the payroll function has been transferred back to the finance department as of February 2019 and additional staff have been added. The finance staff will continue to be responsible for the health and dental reconciliations and will ensure the rest of the payroll liabilities are reconciled monthly.

Anticipated Completion Date: March 1, 2019

OTHER COMMENTS

City of Portland

Old Outstanding Checks

During our audit procedures of year end cash balances, it was noted that a significant number of outstanding checks on bank reconciliations were dated more than six months prior to the bank statement's month end. Although the total dollar amount of these checks was immaterial in the aggregate, there were over 200 individual checks listed as reconciling items that were dated in excess of six months prior to the month end date of the bank statement.

To ensure month end bank reconciliations are accurate and do not include excessive outdated information, it is our recommendation that any old outstanding checks are properly dealt with, by either reissuing checks to employees and vendors, or remitting to the State as unclaimed property.

Management Response: We believe we are in compliance with State guidelines concerning outstanding checks. However, we will review these items on a more frequent basis to determine the appropriate disposition of each outstanding payment.

Anticipated Completion Date: February 1, 2019

Fuel Purchasing Cards – Fleet

Our testing of the fuel cards used in the Fleet Department revealed that the odometer readings in the system, which are used to verify the validity of fuel purchases, are not always accurate. We recommend using a system that ensures data accuracy for the odometer readings and variances, if any, should be accompanied by explanation and documentation.

Management Response: Staff of the Finance Department will revisit the proper fuel card procedures with users, and will review the current system to improve the accuracy of odometer readings and the reporting of variances.

Anticipated Completion Date: April 1, 2019

CITY OF PORTLAND, MAINE
Schedule of Findings and Responses, Continued
June 30, 2018

Portland Public Schools

School Lunch Cash Receipts

As part of our annual audit, we examined the process surrounding the online credit card payments received through the School Nutrition Program. Our testing revealed that this information was not reviewed nor reconciled by School Department staff since September 2017. While staff later reconciled these amounts and transactions through the end of June 2018, and no significant issues were detected, the risk of inappropriate activity or errors is increased when a regular review is not performed. We recommend that the School Department management and staff implement monthly review and reconciliation procedures to ensure the ability to detect and correct any issues associated with the online credit card revenues in a timely manner.

Management Response: The Portland Public Schools finance staff did not perform the three-part reconciliation in a timely manner due to the significant staffing shortage during the fiscal year but we were reviewing activity regularly. Going forward, our Staff Accountant will reconcile PayPams to the Point of Sale system and TD Bank on a monthly basis.

Anticipated Completion Date: September 1, 2018

Activity Funds

As part of our annual audit, we select three schools on a rotational basis and perform certain procedures with respect to the individual student activity funds. These procedures include 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, King Middle School, and Portland High School. Exceptions noted in our testwork were as follows:

Deering High School – In our test of controls over cash disbursements we found two instances where a check was written without proper documentation. In order to ensure all funds expended are used for their intended purpose, we recommend that invoices or other supporting documentation verifying all of the pertinent information be received prior to a check being written.

King Middle School – During the testing of cash disbursements, it was noted that all purchases involving vendors such as Sam's Club and Wal-Mart were being made using a pre-completed or blank check. This procedure increases the risk of fraud or error and it is not considered an acceptable practice. It is our recommendation that all purchases of this kind should be on a reimbursement basis. Issuing blank checks increases the risk of misappropriation and errors.

All activity funds – During our testing at various activity funds, we noted purchases of gift cards that did not have documentation of the intended recipient. To better ensure the gift cards are being used for the desired purpose and to reduce the risk of fraud, we recommend that whenever gift cards are purchased, the recipients of the gift cards be documented. In addition, we found reimbursements of gas purchases without any mileage log. To ensure the reimbursement does not exceed the expenses incurred, we recommend that all reimbursement for gas or travel be in the form of mileage reimbursement at a set rate.

Management Response: Portland Public Schools agrees with this finding. The School Department will review the current policies and procedures with the Activity Fund account managers. The Staff Accountant will perform mini-audits of the student activity accounts throughout the FY2019 fiscal year looking for these types of infractions to assist Activity Fund managers to make positive changes in a timelier manner.

CITY OF PORTLAND, MAINE
Schedule of Findings and Responses, Continued
June 30, 2018

Anticipated Completion Date: February 1, 2019

School Department – Purchasing Cards

As part of our annual audit, we selected forty school purchasing card transactions for testing. Our testing revealed that the school was often paying sales tax on purchases made. 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. In addition, we noted that six of the forty transactions lacked the appropriate backup documentation to verify the purchase. In some cases, invoices were missing altogether, only a summary invoice was included, or only a packing slip was provided. To ensure that all items purchased with the purchasing cards are proper and for school purposes, it is our recommendation that invoices be required for any purchase and be reviewed on a consistent basis.

Management Response: Portland Public Schools agrees with this finding. 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. Finance staff will begin to perform mini-audits of purchasing card activity looking for sales tax.

Anticipated Completion Date: February 1, 2019

School Department Cash Disbursements

As part of our annual audit, we selected forty School Department cash disbursements for testing. Our testing revealed two instances of missing bid documentation and one instance of a missing invoice. It is our recommendation that all projects which are required to go out to bid are documented accordingly. All documentation pertaining to projects that require the use of bid or quotes should be filed together, either on a network drive or in a filing cabinet. For any projects that do not require formal bids, but require quotes, some form of documentation of those quotes should be kept. It is also our recommendation that prior to payment of all expenditures, an invoice or other documentation is obtained and reviewed.

Management Response: Portland Public Schools agrees with this finding. The finance department is shifting responsibilities to ensure more time is devoted to oversight of the purchasing function. The Budget Manager will be reviewing all purchase orders, requisitions and contracts over \$5,000 on a daily basis and will look specifically for items requiring multiple quotes or formal RFPs. All department directors will be reminded of the Purchasing Ordinance requirements.

Anticipated Completion Date: February 1, 2019