

December 20, 2013

To: City of Bangor Finance Committee, acting as Audit Committee
Debbie Cyr, Finance Director, City of Bangor, Maine
Alan Kochis, Director of Business Services, Bangor School Department

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 Bangor, Maine (the City) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Bangor, 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 of Bangor, Maine'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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 matters that are opportunities for strengthening internal controls and operating efficiency. They have been identified on the attached schedule as "Other Comments".

City of Bangor Finance Committee, acting as Audit Committee
Debbie Cyr, Finance Director, City of Bangor, Maine
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We wish to express our appreciation for the cooperation and assistance we received from the officials and employees of the City of Bangor, 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, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management of the City and School Department, the City Council and School Committee, and others within the organization, and 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 "Raymond Newton Ouellette".

CITY OF BANGOR, MAINE
Schedule of Comments
June 30, 2013

OTHER COMMENTS

Inventory

During our testing of Public Works inventory counts, we found several instances in which our counts differed from those counts taken by employees, sometimes significantly. Upon further discussion with the employees, it was unclear as to why there was a difference (difficulty identifying the part; someone taking materials and not signing them out, etc.). In all instances, the department agreed that our counts were correct and the items should be corrected in the system. In addition, we found new materials that were not included in inventory but should have been. On further inquiry, it was determined that the items would be distributed and not held in Public Works.

For both the Motor Pool and Public Works, we found items that were used and not counted as part of the inventory, but were mixed in with the regular counted items and were not labeled as used or no value. Although we could clearly see the parts were used; the department should still ensure to label all items with no inventory value as "no value" or used. At Public Works, there were also items not included in inventory because they were ordered for special projects, but since they were not labeled, it was difficult to determine whether they should be included in inventory or not.

In order to improve internal controls over inventory, the City should do the following:

Public Works:

1. The department should consider using manufacturer item numbers to identify materials and parts, rather than their own, internally generated part number. That way items would be easier to identify.
2. Parts that do not have an identifying number on them when they come in should be labeled accordingly for easier identification.
3. Parts and materials ordered for specific jobs should be set aside in areas segregated from inventory and should be tagged with the name of the specific project.
4. All new parts and materials should be entered into inventory, regardless of whether they are going to remain in the Public Works Department or not. If they are retained by other departments, then they will be deducted from inventory when they are distributed to those other departments.
5. Parts that are held for other departments or municipalities (e.g. parts purchased by Orono; Sewer Department pipes) should be segregated from regular inventory and labeled accordingly.
6. The City should consider getting either an outside vendor or non-Public Works employees to perform the Public Works inventory counts since the counts have been so error-prone in the past few years.

Both Departments:

7. Obsolete and salvaged items should be segregated from inventory items and labeled "no inventory value" or "used".

Management's response/corrective action plan:

Effective immediately, all used Motor Pool inventory will be marked with a yellow label to indicate no inventory value. Public Works will label all inventory upon receipt. Parts and materials delivered to Public Works for a specific job shall be identified as such. The City will dedicate another group of employees to assist in the annual inventory count to ensure the count is accurate. Public Works will label inventory of no value as such.

CITY OF BANGOR, MAINE
Schedule of Comments, Continued

OTHER COMMENTS, CONTINUED

Shelter Plus Care

During our testing of rental payments to property owners, we noticed several payments supported by rental calculations on which the amount paid had been manually changed, with no explanation for the change or who made the change. In order to improve internal controls over rental payments, the Health and Community Services Department should recalculate the rental amounts (e.g., change in the tenant's income) and document the reason for the change. This process will allow the city to track changes and ensure payments are made for the correct amount.

Management's response/corrective action plan:

Reasons for changes to the rental assistance amount will be noted on the face of the form itself.

IT Controls

During our review of information technology (IT) internal controls, we determined that the City currently does not have a contingency plan in place if IT services are disrupted. In addition, the City does not have a formal policy for periodically changing passwords or ensuring that passwords for terminated employees are promptly disabled. We also determined the City does not have in place an intrusion detection system that would alert employees of unauthorized access to the City network. In order to improve internal controls over information technology, the City should consider implementing some of the controls discussed. These controls would also minimize the risks associated with disrupted operations.

Management's response/corrective action plan:

The City (IT) does have an offsite disaster recovery backup of its data. This backup is performed via dedicated fiber to a secure IT room at Fire Station 6. While we do not have enough contingency servers and switches to fully restore the data if the primary servers become unavailable at City Hall, there are a few options available should a disruption in IT services occur: contract with an IT vendor to bring in the necessary servers, acquire the necessary equipment to have a full redundant environment for City IT data, servers, and related equipment, or contract with an outside vendor for cloud services for disaster recovery.

The City will implement a mandatory changing of passwords every 45 days for all employees, system administrative accounts, and all system servers. As part of the payroll process, all terminations shall be reported to IT weekly.

While the City does not have an intrusion detection system it has implemented procedures to prevent authorized access to the systems including; all unused data/voice jacks are not terminated to live ports on switches, all data jacks will require the user to enter a username and password, otherwise access is denied to services and all outside access is through a Barracuda firewall and VPN with authentication requiring a username and password.

ARRA Reporting

During our testing of the COPS Hiring grant, we determined that the City underreported expenditures on the first Quarter 2013 ARRA report. This was corrected on the second quarter 2013 ARRA report. In order to improve controls over ARRA reporting, the City should consider having another employee review the reports once they are completed to ensure accuracy of reporting.

Management's response/corrective action plan:

As the ARRA funds have now been fully expended and drawn, there is no corrective action for this particular issue; however, the practice of a second individual to review will be implemented where necessary.

CITY OF BANGOR, MAINE
Schedule of Comments, Continued

OTHER COMMENTS, CONTINUED

School Activity Funds (repeat)

During our testing of the High School and Doughty School Activity Fund cash disbursements, we noted several instances in which backup documentation was either missing or insufficient (e.g. hand written note). We also noted one instance in which the disbursement was posted to the wrong activity; an instance in which school employees were paid wages from the activity fund; and several instances in which the schools reimbursed sales tax.

In order to improve internal controls and minimize risk related to activity fund cash disbursements, the treasurer should ensure that backup documentation is obtained prior to preparing checks and that all wages to employees of the school department go through the payroll process at the central office.

Management's response/corrective action plan:

Personnel at each school has been reminded that disbursements from student activity funds are not to be made until all required signoffs are in place and necessary documentation has been obtained. In addition, checks cannot be made payable to cash or used for payroll purposes, and there will be no reimbursement of sales tax.

Segregation of Duties (repeat)

Treasurer's Office

In the Treasurer's Office, mail receipts are opened and processed in certain circumstances by the same individual. Ideal segregation of duties provides for separation of functions by different individuals and, therefore, would have mail receipts opened by an employee different from the person processing the receipts. This practice provides for verification of receipts processed and prevents receipts from being diverted for unauthorized purposes. We recommend that the City consider establishing a system requiring that a person different from the employee opening the mail process all mail receipts.

Sewer Fund

Because there are only four individuals at the sewer fund who perform accounting related functions, ideal segregation of duties is impractical. Because of this, we believe that the City should consider expanding the responsibilities of the internal audit functions to provide for a periodic review of sewer fund operations.

Code Enforcement

In Code Enforcement, the same individual that receives payments also reconciles cash received to permits issued. Ideal segregation of duties provides for separation of functions by different individuals and, therefore, would have payments received by an employee other than the employee reconciling such receipts. This practice provides for verification of permits issued and prevents receipts from being diverted for unauthorized purposes.

Assessor's Office

In the Assessor's Office, any employee may accept payment and any employee may perform a reconciliation of such receipts. Furthermore, cash-outs occur once a week and all employees in the office have access to the cash box. Ideal segregation of duties provides for separation of functions by different individuals and, therefore, would have payments received by an employee other than the employee performing reconciliations. We also recommend that access to the cash box be restricted to one individual who has sole responsibility for its safeguard and cash outs be performed daily.

CITY OF BANGOR, MAINE
Schedule of Comments, Continued

OTHER COMMENTS, CONTINUED

Police Department

In the Police Department, any one of three employees may accept payments and process the payments on the cash register. In addition, the same employee who opens the mail also processes payments for parking tickets and cashes out the register at the end of the day. Ideal segregation of duties provides for separation of functions by different individuals and, therefore, would have payments received by an employee other than the employee responsible for daily cash outs. We also recommend that access to the register be restricted to one individual who has sole responsibility for its safeguard.

Public Works

In the Public Works Department, the same employee who has custody of the materials inventory is the same employee who updates the software for inventory usage. To improve internal controls over inventory, an employee who does not have physical access to the inventory should update the software counts.

Management's response/corrective action plan:

Total segregation of duties is very difficult to achieve within our current operating environment. The City will be implementing new accounting software which may alleviate some of these issues, but it would be difficult to eliminate all such instances. Where appropriate and able, compensating controls are put into place to minimize risk.

Arbitrage Rebate Calculations (repeat)

I.R.S. regulations relating to arbitrage requires tax-exempt issuers of debt instruments, under certain circumstances, to perform an arbitrage rebate calculation. As a general rule, the calculation must be performed for each government obligation issued after August 15, 1986. The calculation must be made five years from the date of issue and every five years thereafter, and the final calculation is made upon retirement of the respective issue. For revenue anticipation notes and other obligations which are retired prior to five years, the rebate calculation must be performed upon retirement and not on the five-year anniversary. We recommend that the City identify any such issues and perform the necessary calculations, if applicable. Continuing to accumulate the information on a timely and consistent basis and performing the calculations when due will save time and money as well as ensure a more accurate calculation.

Management's response/corrective action plan:

Arbitrage rebate calculations are performed periodically, but we recognize it needs to be on a more formal and regularly scheduled basis. This issue has been identified for correction as part of our recently revised City debt policy, the City anticipates being in full compliance prior to June 30, 2014.

Anticipated completion date for corrective action:

We anticipate corrective action of all comments to be taken with twelve months.

Contact person responsible for corrective action:

School - Alan Kochis, Director of Business Services, Bangor School Department, 207-945-4400

City - Debbie Cyr, Finance Director, City of Bangor, Maine, 207-992-4253